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Towards an understanding of the role of standard setters in standard setting*

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Abstract

We investigate the effect of standard setters in standard setting: We examine how certain professional and political characteristics of FASB members and SEC commissioners predict the accounting “reliability” and “relevance” of proposed standards. Notably, we find FASB members with backgrounds in financial services are more likely to propose standards that decrease “reliability” and increase “relevance,” partly due to their tendency to propose fair-value methods. We find opposite results for FASB members affiliated with the Democratic Party, although only when excluding financial-services background as an independent variable. Jackknife procedures show that results are robust to omitting any individual standard setter.

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1. Introduction

As the Financial Accounting Standards Board (FASB) closes in on four decades, the role of its standards in shaping U.S. and international corporate reporting is widely acknowledged. An empirical literature on the political economy of FASB standard setting has emerged over that period to explore the origins of accounting standards largely through an analysis of constituent comment-letter lobbying (e.g., Watts and Zimmerman, 1978). But such comment-letter lobbying is only part of the political economy that determines accounting standards (e.g., Ramanna, 2008, studies the role of congressional intervention). At the core of the standard-setting process are the individuals that comprise the FASB and its sanctioning authority, the Securities and Exchange Commission (SEC). In this paper, we develop and test some exploratory hypotheses with a view towards building an understanding of the role of FASB and SEC regulators in U.S. GAAP.

Although the idea that FASB and SEC regulators can matter in standard setting is intuitively appealing, it has not been subject to empirical testing. This is due in part to limited data availability, but also in part to neoclassical economics, which is widely used in accounting research and tends to view “individuals” as “so empirically unimportant as to allow the use of Occam’s razor in positive models” (e.g., Kalt and Zupan, 1984, p. 279). Recently, however, empiricists in finance and accounting have begun exploring the role of individuals on equilibrium outcomes, particularly in the context of individual managers and firm policies (e.g., Bertrand and Schoar, 2003; Bamber, Jiang, and Wang, 2010; Dyreng, Hanlon, and Maydew, 2010). Moreover, in the regulation literature itself, there is some evidence of regulators’ preferences mattering in outcomes at both the congressional (e.g., Kau and Rubin, 1979) and the bureaucratic agency levels (e.g., Gormley, 1979). Thus, in the context of accounting standard

setting, tests of influence of FASB and SEC regulators can help refine our understanding of the political economy of U.S. GAAP.

We conduct our study through an analysis of FASB exposure drafts proposed from 1973 (the FASB's inception) through 2007. There are 149 such exposure drafts in our sample after data limitations. Our primary tests involve regressing assessments of the nature of an exposure draft on the average background characteristics of extant FASB and SEC regulators.

We evaluate a proposed SFAS (Statement of Financial Accounting Standards) by focusing in particular on its impact on accounting “relevance” and “reliability”—two characteristics usually cited as fundamental accounting properties in accounting textbooks (e.g., Stickney, Weil, Schipper, and Francis, 2010, pp. 23, 114). There are no obvious metrics to use in evaluating exposure drafts; our choice of “relevance” and “reliability” reflects our judgment on their importance to accounting. Since at least the publication of its conceptual statements in the late 1970s (e.g., FASB, 1978; 1980), the FASB itself has viewed “relevance” and “reliability” as “the two primary qualities that make accounting information useful for decision making” (FASB, 1980, p. 5), adding that “serious disagreement” often arises “about whether the superior relevance of the results of one [accounting] method outweighs the superior reliability of the results of [another]” (FASB, 1980, p. 8). Moreover, the increased prominence, since the mid-1990s, of fair-value accounting in standard setting has generated additional interest in the “trade-off” between “relevance” and “reliability.” The FASB has often justified the increased use of fair values by arguing it will increase the “relevance” of accounting numbers (e.g., Johnson, 2005). In contrast, some academics have argued accounting estimates generated under fair-value accounting will decrease the “reliability” of financial reports (e.g., Watts, 2003).¹

¹ While “reliability” and “relevance” can be trade-offs in some circumstances, it is an empirical question as to whether these concepts are always at odds with each other.

To obtain assessments of exposure drafts' impact on "relevance" and "reliability" that are independent of researcher judgment, we develop a measure based on comment letters filed by the Big 8/6/5/4 auditors (hereafter, "Big N auditors"). There are 908 such comment letters in our sample after data limitations. The advantage to using Big N auditors' comment letters is that they are available on most exposure drafts in our sample period and are contemporaneous (i.e., no hindsight bias). The letters are, however, likely to reflect the auditors' private incentives, which can confound inferences if endogenous to our explanatory variables (i.e., the characteristics of FASB and SEC regulators). To mitigate this concern, in robustness tests we use an alternative assessment of the exposure drafts from two seasoned research assistants (with over thirty years of combined experience in accounting) blind to the objective of this study.

We build a biographical database of all 39 FASB members and all 41 SEC commissioners serving between 1973 and 2007. Drawing on empirical political-economy research that has examined the characteristics of regulators on regulation (see Dal Bo, 2006, for a review), we focus on two sets of characteristics: professional and political. The professional characteristics are length of regulatory tenure, industry background in auditing, and industry background in investment banking/ investment management (hereafter, "financial services");² the political characteristics are affiliations, if any, with the Democratic and Republican parties. Prior research has consistently found high correlations between regulators' professional and political characteristics and so has examined these characteristics both independently and jointly in multivariate regressions. We adopt this approach in our empirical design.

In examining professional characteristics independently, we find that longer average FASB and SEC tenures are associated with exposure drafts perceived by auditors as decreasing

² When studying industry background, the regulatory literature has focused on industries most closely associated with the regulations being studied. In our setting, we focus on auditing and financial services, viewing them as front-line intermediaries in the production and use of accounting information.

accounting “reliability;” but, we find no evidence of an association between the regulators’ tenures and exposure drafts’ “relevance.” If decreased “reliability” is an undesirable property of accounting (e.g., Watts, 2003), the result is consistent with longer regulatory tenures compromising accounting quality.³ Concerning industry backgrounds, we expect regulators with prior employment in auditing to be more sympathetic to accounting “reliability” (since “reliable” accounting lowers auditors’ litigation risk; e.g., Watts, 2003); in contrast, we expect members with prior employment in financial services to be sympathetic to valuation-relevant accounting (e.g., ICI, 2008), and thus more likely to promote “relevance” at the expense of “reliability” (e.g., Johnson, 2005). We do not find results associating regulators’ careers in auditing with “reliability” and “relevance.” However, we find evidence that exposure drafts proposed by FASB members and SEC commissioners with prior experience in financial services are viewed by the Big N auditors as decreasing accounting “reliability.” Further, in the case of FASB members, experience in financial services is associated with exposure drafts viewed by the Big N auditors as increasing accounting “relevance.” Additional analysis suggests these associations are partly due to the tendency of FASB members with financial-services backgrounds (the proportion of which increases in our sample period) to propose standards that use fair-value methods.

In studying regulators’ political characteristics, we are motivated by prior political-science research that has shown that political affiliations are salient predictors of regulator behavior: e.g., Cohen (1986) provides evidence that Democratic regulators are on average less sympathetic to corporate interests. In examining political characteristics independently, we find evidence that increased proportional membership of Democrats on the FASB is associated with exposure drafts that are perceived by the Big N auditors as both increasing accounting

³ Stigler (1971) argues that longer regulatory tenures compromise regulation by promoting greater “coziness” between regulators and the regulated.

“reliability” and decreasing accounting “relevance.” However, when we examine the regulators’ professional and political characteristics jointly, we find that the results on backgrounds in financial services alone survive. Thus, in our population and time period, political affiliation does not appear to be a significant factor beyond financial services affiliation. We note that there is no *ex-ante* theory that suggests either professional or political characteristics are more important than the other in explaining regulatory decisions (e.g., Dal Bo, 2006), thus future research is needed to draw more definitive conclusions.

There are certain other caveats to our analysis. First, the small population of regulators in our study might mean that influential observations are driving reported statistical significance. We mitigate this concern through a jackknifing procedure where we re-estimate all regressions successively eliminating each regulator to determine if she/he is instrumental to inferences: this procedure does not alter inferences on variables discussed as statistically significant. Second, the scope of our study is limited by our choice of dependent and independent variables: other dependent variables (e.g., “comparability,” compliance costs, net-income effect) and independent variables (e.g., age, gender, education) can be considered. Thus, our findings should be interpreted as the result of a first look at the relationship between standard setters and GAAP.

These caveats notwithstanding, the results described above are robust to numerous substantive and econometric controls, including controls for cross-sectional dependence of observations, auditor-specific effects, and aggregate market conditions. Additionally, we conduct a number of sensitivity tests, including (i) using research assistants’ (instead of the Big N auditors’) evaluations of exposure drafts; (ii) assigning greater weight to FASB and SEC chairmen when calculating the average background characteristics of extant regulators (to assess if chairmen are more important in standard setting); and (iii) restricting our analysis to periods of

economic growth (to assess the sensitivity of our findings to broader macroeconomic conditions). These results are discussed in Section 5.

Broadly, the evidence in this paper suggests individual standard setters have equilibrium effects on standard setting. Kothari, Ramanna, and Skinner (2010) summarize two theories to explain accounting standard setting: “capture” and “ideology.” Under capture theory, constituent lobbying determines standard-setting outcomes since regulators are “captured” by their special-interest constituents; under ideology theory, constituent lobbying is only one input to standard setting, which is also influenced by regulators’ ideologies. If accounting standard setting is more aptly described by ideology theory, one would expect to see the systematic impact of regulators’ characteristics in accounting standards, as we find. However, empirically it is difficult to rule out “capture” because the selection of regulators is itself a political process, which may be beholden to special interests. For example, our findings associating the growing proportion of FASB members from financial services to fair-value standards can be explained by the growth of the financial-services sector over our sample period: changing political economies associated with the growth of finance may have resulted in the increased proportion of finance-industry veterans on the FASB, who in turn proposed fair-value standards. Going forward, a research program in this area that draws on our initial look at the question can provide additional insights into the role of individual regulators and special-interest politics on the nature of accounting regulation.

The rest of the paper is organized as follows. Section 2 lays out the motivation for our research-design choices and discusses associated limitations. Section 3 describes the construction of variables and develops associated hypotheses. Section 4 discusses descriptive statistics and the multivariate regression strategy. Section 5 presents and interprets the multivariate results, including robustness tests. Section 6 concludes.

2. Motivating research-design choices

2.1. Which dependent variables?

To empirically assess the role of standard setters in standard setting, we require a reasonable and parsimonious metric to evaluate proposed standards. The analogous literature that explores the role of individual managers in firm policies generally employs explicit performance and governance metrics such as earnings, stock returns, disclosure standards, and accounting quality.⁴ Such obvious metrics are not applicable to our setting. In evaluating standards, we use “reliability” and “relevance” as discussed above. “Reliability” and “relevance” are widely viewed as being among accounting’s “fundamental qualitative characteristics” by both academics (e.g., Stickney *et al.*, 2010, p. 765; Dyckman, Magee, and Pfeiffer, 2011) and the FASB (e.g., FASB, 1978; 1980).^{5,6} In addition to “reliability” and “relevance,” there are likely other possible metrics to evaluate accounting standards, including “comparability,” “consistency,” and whether the standards are income increasing. In this sense, there is considerable scope for additional research along the lines we have pursued.

2.2. Which independent variables?

In selecting the characteristics of FASB members and SEC commissioners to study, we are motivated by prior political-economy research in this area. Dal Bo (2006), in a recent review,

⁴ See, for example, Bamber *et al.* (2010); Dyreng *et al.* (2010); and Ge, Matsumoto, and Zhang (2011).

⁵ The classification of standards as along “reliability” and “relevance” can also be related to research on the demands of debtholders versus equityholders on financial reporting practices. Debtholders are usually seen as demanding “reliability” (e.g., Watts, 2003), while equityholders are seen as demanding either “relevance” (e.g., Barth, 2006) or both “reliability” and “relevance” (e.g., LaFond and Watts, 2008).

⁶ Recently, the FASB modified its conceptual framework to move away from “reliability” towards “representational faithfulness.” This change was likely made (at least in part) due to criticisms that the FASB was undermining the “reliability” of accounting standards (e.g., Watts, 2003). In response to these criticisms, some FASB members argued that “reliability” had been “misunderstood” to mean “verifiability;” the concept of “representational faithfulness” was advanced to replace “reliability” (e.g., Schipper, 2005). The change was proposed at a joint FASB-IASB board meeting on May 25, 2005, and the change was introduced into the conceptual framework in 2010. Since the change was initiated towards the end of our sample period, and went into effect after our sample period, we use “reliability,” not “representational faithfulness,” in our analyses.

notes that empirical research on the role of regulators in regulation, while (p. 215) “well short of abundant,” has largely focused on regulators’ professional characteristics—particularly, industry backgrounds—and regulators’ political party affiliation. In addition, he points to empirical work on the role of regulators’ terms-in-office on regulatory outcomes. Given the exploratory nature of our study, we focus on these independent variables.

On industry backgrounds, *ex ante*, we have a broad choice of industry classifications to organize the data (e.g., SIC codes). However, given the limited number of FASB members (n=39) and SEC commissioners (n=41) in our sample period, we are unable to use such broad-based industry classifications. Prior empirical research on regulators’ industry backgrounds has focused on industries most closely associated with those regulations (e.g., Cohen, 1986, studies whether Federal Communications Commission, FCC, regulators with broadcasting industry experience are more supportive of that industry). In our case of studying accounting standard setting, we identify auditing and financial services as the most closely associated industries. We focus on backgrounds in auditing because accounting and auditing are joint products in financial reporting and because of the historical evidence on the close input of the audit industry in standard setting (e.g., Watts and Zimmerman, 1982, 1983). We focus on backgrounds in financial services because the financial services industry is a front-line intermediary in using accounting information. This includes investment management, which uses accounting information on the buy side, and investment banking, which uses accounting information on the sell-side. Thus, we expect an investigation of standard setters with backgrounds in auditing and financial services to provide a useful lens into standard setting.⁷

⁷ In addition to tenure lengths, industry backgrounds, and party affiliation, it is possible that other characteristics of FASB and SEC regulators also matter. For example, in the context of studying the idiosyncratic styles of CEOs, Bertrand and Schoar (2003) examine whether managers’ age, gender, and education matter. In unreported tests, we examine whether such characteristics of FASB and SEC regulators are systematically associated with the standards

2.3. Limitations of the research design

We attempt to provide some empirical evidence on the role of standard setters in standard setting. Such evidence can complement existing findings on the role of constituent comment-letter lobbying and congressional intervention in standard setting (see Kothari *et al.*, 2010, for a recent review). Empirically, we focus on the association between standard setters and the exposure drafts they propose. Exposure drafts appear prior to *direct* comment-letter lobbying and thus provide a relatively clean setting (relative to final standards) to examine the role of standard setters. Of course, constituent lobbying can influence the exposure draft process as well, but such *ex-ante* lobbying is difficult to observe, and our research design does not address its possible effects on standard setting. Further, it is possible that the selection of regulators to the FASB and SEC is itself a function of constituent lobbying. Such lobbying, in turn, is likely driven by extant economic and political circumstances, for example, macroeconomic conditions, globalization (e.g., growth of IFRS), the rise of the financial services sector, or the rise of information technologies.⁸ While our research design allows us to infer a role for standard setters in standard setting, it does not allow us to conclusively establish whether this role derives from some intrinsic ideology of regulators or from prevailing political economies.

3. Variable measurement and hypotheses

3.1. Dependent variables: decreased “reliability” and increased “relevance”

To evaluate the FASB exposure drafts in our sample period independently of researcher judgment, we rely on two separate methods. First, we examine relevant comment letters filed by

they propose. We also test whether the regulators’ backgrounds in academia and government systematically vary with their proposals. The results are inconclusive.

⁸ On the role of macroeconomics on regulation, Bertomeu and Magee (2011) propose a model where accounting regulators are subject to different political pressures during different stages of the economic cycle.

the Big N auditors. Second, we use two research assistants who are blind to the objectives of the study to manually assess the exposure drafts (this process is described later in the sub-section).

The key advantage to using Big N auditors' comment letters is that they provide a consistent and contemporaneous source of exposure-draft evaluations. The evaluations are consistent in that the Big N auditors comment on a large majority of exposure drafts in our sample period, so we do not have to rely on evaluations from disparate sources. The evaluations are contemporaneous in that the letters do not suffer from hindsight bias. Moreover, Big N auditors are sophisticated consumers of accounting standards, so we expect their evaluations to have information content.

The changing industrial organization of the U.S. auditing oligopoly means that our set of "Big N auditors" begins with the "Big 8" in 1973 and ends with the "Big 4" in 2007. Table 1 provides a timeline of the changing dynamics of the U.S. audit industry. There are 170 distinct FASB exposure drafts that became 163 distinct SFAS in our sample period, 1973–2007. The absence of Big N auditor comments letters on six SFAS over that period decreases our sample size to 157 SFAS (Table 1 provides details on the SFAS without comment letters). These 157 SFAS can be traced back to 149 distinct exposure drafts (several exposure drafts resulted in multiple SFAS). There are collectively 908 unique comment letters by the Big N auditors on the 149 exposure drafts. We obtain paper copies of these comment letters from the FASB archives in Norwalk, Connecticut, and then digitize the comment letters using a combination of optical character recognition software and manual transcription. The digitized letters are then analyzed for contextually relevant occurrences of word stems "relevan" and "reliab" to create our auditor-based measures of the exposure drafts' impact on decreased "reliability" and increased "relevance" using a process described in Appendix A. Based on that process, we define two

variables, *inc_relv* and *dec_relb*, intended to capture the intensity of auditors' concerns that a proposed standard will increase "relevance" and decrease "reliability," respectively. The variables *inc_relv* and *dec_relb* are defined as follows. For each Big N auditor comment letter "*i*" on a proposed SFAS "*j*":

$$inc_relv_{ij} = 1 - \frac{WC_inc_relv_{ij}}{WC_{ij}} \quad \dots (1)$$

$$dec_relb_{ij} = 1 - \frac{WC_dec_relb_{ij}}{WC_{ij}} \quad \dots (2)$$

In the above equations, $WC_inc_relv_{ij}$ is the word count of the first instance of the word stem "relevan" used in the context of increased "relevance" in comment letter "*i*" on proposed SFAS "*j*," $WC_dec_relb_{ij}$ is the word count of the first instance of the word stem "reliab" used in the context of decreased "reliability" in comment letter "*i*" on proposed SFAS "*j*," WC_{ij} is the total word count of comment letter "*i*" on proposed SFAS "*j*." In measuring *inc_relv* and *dec_relb*, we focus on the *relative* positions of the word stems "relevan" and "reliab" within a comment letter in order to get a measure of the *relative* importance of the auditors' sentiments on "relevance" and "reliability." The implicit assumption is that the stronger an auditor feels on "relevance" or "reliability," the earlier the concept will be discussed in the comment letter.⁹ By construction, *inc_relv* and *dec_relb* are confined to the range [0, 1] and are expected to increase in the strength of an auditor's opinion of an exposure draft's impact on increased "relevance" and decreased "reliability," respectively.

⁹ This assumption is consistent with the usual format of comment letters, which generally begin with an introductory paragraph highlighting key issues before tackling technical details in the body of the letter. Thus, if "relevance" and "reliability" are sufficiently important concerns for a letter writer, we expect the terms to be mentioned in the introductory paragraph, resulting in higher scores on *inc_relv* and *dec_relb*. In untabulated analysis, we tested the robustness of our results to this assumption by defining alternative binary dependent variables that are not sensitive to the relative location of substantive references to "relevance" and "reliability." Results of this analysis are inconsistent with the concern that location-based construction may be driving our primary results.

The Big N auditors' evaluations of exposure drafts are likely to be influenced by their private incentives: for example, if auditors are biased towards identifying decreased "reliability" over increased "relevance" because of litigation concerns, or if auditors are biased by the extant composition of their client base.¹⁰ In our tests, we do not expect these incentives to be correlated with our independent variables (i.e., the characteristics of FASB and SEC regulators), thus we expect these biases to add a scalar or a random variable to the regressand. Nevertheless, to mitigate the concern that auditor incentives can affect inferences in our tests, we supplement our auditor-based evaluations of the FASB exposure drafts with manual assessments by two research assistants who are blind to the objectives of the study but have extensive experience and practical familiarity with accounting. We use the standard dual-coder model in having the research assistants evaluate the exposure drafts. That is, the research assistants first independently evaluate each exposure draft based on a rubric discussed in Appendix B; then, the research assistants meet to resolve, if possible, instances of disagreement in their assessments. Of the 170 exposure drafts that became the 163 SFAS in our sample period, we are able to obtain, from the FASB archives, copies of 145 exposure drafts representing 137 distinct SFAS. Copies of the remaining exposure drafts, all dating from the 1980s and before, are not readily available in the FASB archive.¹¹ The 145 exposure drafts are manually assessed and then merged with the 149 exposure drafts for which we have auditor-based evaluations, yielding a common sample of 126 exposure drafts. In the subsequent section, we explore the correlation in our dependent variables across the auditor and research-assistant evaluations. The research assistants' evaluations of

¹⁰ Nelson, Elliott, and Tarpley (2002) provide some survey-based evidence on auditors' incentives.

¹¹ In the case of several exposure drafts from the 1980s and before, only one paper copy exists at the FASB archive. The FASB publications department is in the process of digitizing all historic records, but the exposure drafts missing from our study were not available at the time we conducted the analysis.

decreased “reliability” and increased “relevance” are denoted *Manual_dec_relb* and *Manual_inc_relv*, respectively.

3.2. Independent variables: characteristics of FASB members and SEC commissioners

As noted earlier, our primary tests focus on the professional characteristics (i.e., tenure lengths and industry backgrounds) and political characteristics (i.e., party affiliations) of FASB members and SEC commissioners, because prior literature has studied these variables in the context of other regulators (e.g., Gormley, 1979; Cohen, 1986; Dal Bo, 2006; Leaver, 2009). The first FASB members took office in 1973 (shortly after the FASB’s founding), and there have been 39 members on the board through December 2007. For each of these 39 members, we collect data on their length of tenure on the FASB, their backgrounds, if any, in auditing and financial services, and their political affiliations. In the same period, there have been 41 SEC commissioners, and we collect similar data on the commissioners.

Data on the duration of service on the board and the most recent employer prior to appointment to the board for FASB members are obtained primarily from two sources: (1) press notices issued by the FASB at a member’s initial appointment; and (2) the FASB’s annual informational bulletin, “Facts about FASB.” We create two non-exhaustive indicator variables to classify the members’ pre-FASB employers for further analysis: the first variable identifies whether a member worked for an audit firm prior to joining the board; the second whether the member worked for an investment bank or investment management firm. The equivalent data on the SEC commissioners’ tenure and professional background are obtained from the SEC’s historical archives, as well as from newspaper biographies of the commissioners (usually published upon the commissioners’ initial appointment).

In addition, we also build a database of the 39 FASB members' political affiliations. Conceptually, we are interested in whether the members identify as Democrats or Republicans. Since members of the FASB are not explicit political appointees (they are appointed by the non-governmental Financial Accounting Foundation), the members' party affiliations are not readily known. Thus, we infer members' political identities by studying the history of their campaign contributions (if any). The Federal Election Commission (FEC) archives data on campaign contributions over \$200 by U.S. individuals. Members contributing to the Democratic Party are coded as Democrats; those contributing to the Republican Party are coded Republicans; while members not contributing to either party are not assigned a political identity.¹² In the case of SEC commissioners, party affiliations are declared at or prior to appointment, so political identities need not be inferred from campaign contributions.

Our empirical tests are concerned with evaluating the influence of FASB and SEC regulators on exposure drafts. Accordingly, for each exposure draft in our sample, we average the personal characteristics of all FASB members and SEC commissioners in office at the time. For example, for the exposure draft that became SFAS 106, we average across the seven FASB members and five SEC commissioners in office as of February 1989 (the date the exposure draft was issued) their lengths of service on the board (hereafter, *Tenure FASB* and *Tenure SEC*, respectively). Similarly, we compute across the members and commissioners, the proportion with prior employment in auditing (hereafter, *% Auditor FASB* and *% Auditor SEC*, respectively), the proportion with prior employment in investment banking/ investment management (hereafter, *% Financial FASB* and *% Financial SEC*, respectively), the proportion contributing to the Democratic Party (hereafter, *% Dem Donor FASB* and *% Democrat SEC*,

¹² To the extent that the FEC database is not comprehensive, our measure of political contributions is measured with error. However, we are not aware of any reason for the FEC excluding contributors over \$200.

respectively). We also compute the proportion of FASB members contributing to the Republican Party (hereafter, *% Rep Donor FASB*). An equivalent variable for SEC commissioners is obviated by the fact that the proportion of Republicans and Democrats in the SEC sample is collectively exhaustive. In subsequent empirical tests, we do not include *% Auditor SEC* because only one of the 41 SEC commissioners that served during our sample period worked for an audit firm prior to appointment to the commission.

The assumption implicit in averaging FASB members' and SEC commissioners' characteristics by exposure draft is that these documents represent the average position of the members and commissioners, respectively, in office at the time.¹³ In sensitivity tests described later, we examine the robustness of our results to assigning greater weight to FASB and SEC chairmen when calculating the average background characteristics.

3.3. Hypotheses development

Tenure FASB and *Tenure SEC* can be used to assess the impact of the average length of standard-setters' terms on regulatory capture. In the classical economic theory of regulation (Stigler, 1971), longer terms (i.e., higher values of *Tenure FASB* and *Tenure SEC*) signify greater "coziness" between regulators and the regulated, compromising regulatory outcomes. However, Leaver (2009) develops and tests a model of regulation where longer terms insulate regulators from political pressure, thus improving regulatory outcomes. If decreased "reliability" is an undesirable accounting property, a positive association between *Tenure FASB/Tenure SEC* and our proxies for decreased "reliability" (i.e., *dec_relb* and *Manual_dec_relb*) is consistent with longer term-lengths compromising regulatory outcomes per Stigler's theory. Similarly, if

¹³ The maximum number of FASB members (SEC commissioners) at any given time during our sample period is seven (five). However, because new members do not immediately take office upon the resignation of another member, the size of the board can on occasion be less than seven (five).

increased “relevance” augments accounting, a negative association between *Tenure FASB/Tenure SEC* and our proxies for increased “relevance” (i.e., *inc_relv* and *Manual_inc_relv*) is consistent with Stigler’s theory.

% Auditor FASB, *% Financial FASB*, and *% Financial SEC* can be used to assess the impact of FASB members’ and SEC commissioners’ industry backgrounds on accounting standard setting. Prior research in political science has shown that regulators tend to be more supportive of the industries they hail from (perhaps because they seek employment or consulting opportunities in those industries upon completion of their regulatory terms, e.g., Cohen, 1986). Given their role in assuring financial reports, and the substantial legal liability associated with this role (e.g., Kellogg, 1984; Watts, 2003), we expect auditors, *ex ante*, to be more sympathetic to standards promoting “reliability” at the expense of “relevance.” Moreover, if accounting regulators’ industry backgrounds matter in standard setting, FASB members and SEC commissioners with backgrounds in auditing will, *ceteris paribus*, be more likely associated with standards promoting “reliability” (potentially over “relevance”). Thus, we predict negative coefficients between *% Auditor FASB* and our proxies for both decreased “reliability” and increased “relevance.” In contrast, *ceteris paribus*, we expect FASB members and SEC commissioners with backgrounds in financial services (defined as investment banking and investment management) to be more supportive of standards expected to improve accounting’s relevance through the use of fair values.¹⁴ Moreover, if the FASB is correct about its arguments linking fair values to increased “relevance” and, sometimes, decreased “reliability” (Johnson, 2005), regulatory backgrounds in financial services are likely to result in standards with such

¹⁴ Anecdotal evidence is consistent with this conjecture: e.g., the Investment Company Institute, the U.S. industry association for investment management firms, has strongly supported the use of fair-value accounting (ICI, 2008). Further, the Big 3 investment banks—Goldman Sachs, Morgan Stanley, and Merrill Lynch—were all enthusiastic supporters of fair-value-based rules for mergers and acquisitions, including in subsequent goodwill impairment testing, during the standard-setting process for SFAS 141 and 142 (e.g., Ramanna, 2006).

properties. Thus, we predict positive coefficients between % *Financial FASB*/ % *Financial SEC* and our proxies for both increased “relevance” and decreased “reliability.”

The empirical literature in political science has also considered the implications of regulators’ political affiliations on regulations, finding that Democratic regulators are on average less sympathetic to regulations benefiting corporate interests (Dal Bo, 2006). Extending this finding to accounting regulations, we can expect Democratic FASB and SEC regulators to be more sympathetic to standards that mitigate corporations’ information advantage over outsiders. Evidence that corporations’ information advantage benefits managers, e.g., Healy and Whalen (1999), is germane to this prediction. Such benefits can engender anti-corporate sentiment (e.g., a perception that managers exploit information advantages to receive “excess compensation”) that is more likely to resonate with Democrats. Linking Democrats’ relative focus on mitigating corporations’ information advantage to promoting “reliability” over “relevance” is trickier. On the one hand, increased “reliability” over “relevance” can mitigate corporations’ information asymmetry over outsiders because: (1) *ceteris paribus*, managers are inherently more likely to emphasize good news over bad news (e.g., Kothari, Shu, Wysocki, 2009); (2) regulatory solutions that are focused on mitigating corporations’ information advantage emphasize, on average, timely discussion of bad news (e.g., Watts, 2003); and (3) such solutions—conservatism and verifiability—result in greater “reliability” over “relevance” (e.g., Kothari *et al.*, 2010, p. 256). On the other hand, firms themselves have incentives to prefer “reliability” to “relevance,” for example, corporations can benefit from accounting conservatism (e.g., through lower capital costs; LaFond and Watts, 2008; Zhang, 2008). Thus, the equilibrium relation between % *Dem Donor FASB*/ % *Democrat SEC* and our proxies for increased “relevance”/ decreased “reliability” is an empirical question. *Ex ante*, we have no prediction on % *Rep Donor FASB*.

Nevertheless, we include this variable in our analysis because % *Dem Donor FASB* and % *Rep Donor FASB* are not collectively exhaustive, and an analysis with % *Rep Donor FASB* can provide additional insights.¹⁵

4. Descriptive statistics and multivariate research design

4.1. Descriptive statistics

Appendix C provides a summary definition of all variables in the study. Table 2, Panel A, reports summary statistics for our measures of decreased “reliability” (*dec_relb* and *Manual_dec_relb*) and increased “relevance” (*inc_relv* and *Manual_inc_relv*). The comment-letter-based statistics are for the 908 Big N auditor comment letters, and the manually assessed statistics are for the 145 exposure drafts examined by our research assistants. The mean value of *dec_relb* (*Manual_dec_relb*) is 0.07 (0.31) and the median value is zero (zero). There is considerable variation in *dec_relb* (standard deviation is 0.22), and much of the variation is across (and not within) proposed standards. The maximum average value of *dec_relb* is observed on the exposure draft for SFAS 141R, Business Combinations. A major provision in this exposure draft was to allow an acquirer to recognize acquired net assets at their fair values, without regard to the cost of the acquisition. Eliminating acquisition cost as the upper bound for net-asset-value recognition can introduce considerable subjectivity in financial reporting; thus it seems reasonable that SFAS 141R’s exposure draft received a high *dec_relb* score.

¹⁵ Two additional factors can confound predictions on political affiliation. First, the variables % *Dem Donor FASB* and % *Rep Donor FASB* are not collectively exhaustive because we cannot identify the political affiliation, if any, for FASB members in our sample who have never made campaign contributions in excess of \$200. Second, the political distance between Democrats and Republicans on the FASB is unlikely to be as wide as that in the general population, because FASB members are usually drawn from the relatively homogenous business community (including investors’ representatives).

The mean value of *inc_relv* (*Manual_inc_relv*) is 0.04 (0.65). The median values of *inc_relv* and *Manual_inc_relv* are zero. The standard deviation of *inc_relv* is 0.17 (over four times the mean), suggesting, as with *dec_relb*, that there is considerable variance among comment letters in their assessments on increased “relevance.” In unreported tests, we find that over two-thirds of this variation is across (and not within) proposed standards. The maximum average value of *inc_relv* for any given proposed SFAS is observed on the exposure draft for SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 is a standard intended to “improve relevance of financial statements” (FASB, 2007), so the high *inc_relv* score on the exposure draft is consistent with *inc_relv* measuring increased “relevance.”

In untabulated tests, we further examine the validity of *inc_relv* and *dec_relb* as measures of increased “relevance” and decreased “reliability,” respectively. Specifically, we randomly sampled 54 of the 908 big auditor comment letters (6%) to manually assess whether the letters expressed sentiments on increased “relevance” and decreased “reliability.” In all but five of the 54 sampled letters (9%), our evaluation agreed with *inc_relv* and *dec_relb*. In all five exceptions, *inc_relv* and *dec_relb* were coded zero because the actual word stems “relevan” and “reliab” were never used, while our manual assessment was that the letters did in fact express sentiments on increased relevance and/or decreased reliability (i.e., there are no false positives in the coding of *inc_relv* and *dec_relb*). The 9% misclassification refers exclusively to false negatives, which essentially result in a low power issue, biasing against finding results.

Table 2, Panel B, reports Pearson (Spearman above the diagonal) correlation coefficients between the dependent variables discussed above. The p-values on the correlation coefficients

are based on clustering at the SFAS level.¹⁶ The variables *dec_relb* and *Manual_dec_relb* (*inc_relv* and *Manual_inc_relv*) are significantly correlated with each other, $\rho=0.341$ ($\rho=0.203$), at the 95% confidence level or higher, suggesting that our comment-letter-based proxies and our manually assessed proxies capture similar concepts. The various proxies for decreased “reliability” and increased “relevance” are also significantly correlated with each other. This result is consistent with the FASB’s conception of “relevance” and “reliability” as trade-offs.

Table 3, Panel A, reports summary statistics for the FASB members’ and SEC commissioners’ personal characteristics. These measures constitute the set of explanatory variables in subsequent regression-based tests. The mean value of *Tenure FASB* is 4.2 and the median is 4.3, suggesting that, on average, an exposure draft is issued by a board with just over four years of individual service experience. In contrast, the mean and median values of *Tenure SEC* are 3.1 and 3.0, respectively, suggesting SEC commissioners are on average less experienced in their extant jobs. Figure 1 plots the time series of *Tenure FASB* and *Tenure SEC* over the sample period. There does not appear to be any discernible time trend in average service experience on the two bodies.

On average, about 40% of FASB members were most recently employed in auditing (% *Auditor FASB*), while about 4% of FASB members were most recently employed in investment banking/ investment management (% *Financial FASB*). Figure 2 plots the time series of these two variables over the 1973–2007 period: % *Auditor FASB* appears to have held steady over time, while % *Financial FASB*, which was zero through about the mid-1990s, appears to have increased to just under 30% in 2007. The average proportion of SEC commissioners most recently employed in financial services (% *Financial SEC*), at 15%, is higher than the

¹⁶ That is, significance of correlation coefficients is computed using the t distribution as $Pr\left(\frac{\rho\sqrt{n-2}}{\sqrt{1-\rho^2}} > t(n-2)\right)$, where ρ is the Pearson correlation coefficient and n is the number of clusters (i.e., SFAS).

corresponding FASB statistic. Figure 2 also plots the trend in % *Financial SEC*, which appears to show considerable time series variation.

The average (median) proportion of FASB members contributing to the Democratic Party, % *Dem Donor FASB*, is 16.73% (14%). The statistics are similar for % *Rep Donor FASB* at 18% (14%). Figure 3 plots the time series of these two variables: % *Dem Donor FASB* is higher than % *Rep Donor FASB* in the first few years of the FASB's existence, while % *Rep Donor FASB* is higher in the period between 1995 and 2002. The average proportion of Democratic SEC commissioners (% *Democrat SEC*) is 45%, which indicates the average statistic for Republican SEC commissioners is about 55%. Overall, the partisan proportions for SEC commissioners are higher than those for FASB members because the former are known with certainty and are collectively exhaustive in the sample. The time series variation in % *Democrat SEC* (Figure 4) is predictable, given that commissioners are appointed by the U.S. president.¹⁷

Pearson correlations (Spearman above the diagonal) between the explanatory variables in Panel A, Table 3 are shown in Panel B, Table 3. Statistical inferences are based on clustering by year. There are strong correlations between the background variables (i.e., tenure and prior employment) and the personal politics variables among FASB members and SEC commissioners. For example, *Tenure FASB* is positively associated with % *Rep Donor FASB* (0.428) and negatively associated with % *Dem Donor FASB* (-0.521); % *Auditor FASB* is positively associated with both % *Rep Donor FASB* (0.216) and % *Dem Donor FASB* (0.519). Also, % *Financial SEC* is negatively associated with % *Democrat SEC*. These correlations are

¹⁷ No more than three of the five SEC commissioners at any given time can belong to the same party; so, for example, a Democratic U.S. president cannot name five Democrats to the commission. Nevertheless, the proportion of SEC commissioners from the same party does sometimes exceed three-fifths because of vacancies and time lags between appointments.

consistent with findings in prior research involving the backgrounds and personal politics of FCC commissioners (e.g., Gormley, 1979; Cohen, 1986).

4.2. Multivariate research design

We are interested in assessing how our measures of FASB proposals' impact on "reliability" and "relevance" vary with characteristics of standard setters. Accordingly, the dependent variables in our regressions are variously, *dec_relb*, *inc_relv*, *Manual_dec_relb*, and *Manual_inc_relv*. In specifying the explanatory variables in these regressions, we follow prior research on regulators by examining the effect of professional and political characteristics both independently and jointly. In the first set of regressions, we only include as explanatory variables the measures of FASB and SEC regulators' professional characteristics: *Tenure FASB*, *% Auditor FASB*, *% Financial FASB*, *Tenure SEC*, and *% Financial SEC*. We do not include measures of the regulators' political characteristics because of the high observed correlations between political and personal characteristics.¹⁸ Appropriately, results from such regressions must be interpreted as exploratory, not definitive. The formal specification for our first set of regressions is given in equation (3).

$$DepVar_{ij} = f(Tenure FASB_j, \%Auditor FASB_j, \%Financial FASB_j, \\ Tenure SEC_j, \%Financial SEC_j) \dots (3)$$

In equation (3), "*i*" is a big auditor comment letter and "*j*" is an exposure draft. Standard errors in estimating equation (3) are clustered two-ways, by proposed SFAS and big auditor

¹⁸ In his review of the literature on regulators' impact on regulation, Dal Bo (2006) notes that (p. 217) "although industry background seems to matter, it is not clear that it has a very strong effect once one considers the role of political affiliations." He attributes this result to the high correlations, noting, for example, that in the case of the FCC, "no Democratic administration appointed a commissioner with [broadcasting] industry background" during the 1955–1974 period. In essence, there is no *ex-ante* theory that suggests either professional or political characteristics are more important than the other in explaining regulatory decisions, and, given the given the high correlations and small sample sizes in these regressions, there is some value to examining professional and political characteristics independently.

(using the method described in Petersen, 2009). We estimate two specifications of equation (3) (and all subsequent regressions), one with Big N auditor fixed effects and one without. The Big N auditor fixed effects specifically identify the “Big 5” auditors; thus for example, a comment letter by Touche Ross from the period preceding the establishment of Deloitte & Touche will be identified by a Deloitte & Touche fixed effect.

We test for the association between our dependent variables and the FASB and SEC regulators’ political characteristics (i.e., % *Dem Donor FASB*, % *Rep Donor FASB*, % *Democrat SEC*) in a second set of regressions. The formal specification for our second set of regressions is given in equation (4) below.

$$DepVar_{ij} = f(\%Rep\ Donor\ FASB_j, \%Dem\ Donor\ FASB_j, \%Democrat\ SEC_j) \dots (4)$$

In equation (4), *DepVar* and the subscripts “*i*” and “*j*” are as defined in equation (3). Standard error clusters are also as described earlier.

In a final set of regressions, we include all independent variables described in equations (3) and (4). Coefficients in all regressions are estimated using ordinary least squares (OLS). We report results both with and without controls for two market-based variables: the annual value-weighted market return (*VWRETD*) and the standard deviation of the daily value-weighted market return (*sd_VWRETD*) in the twelve months preceding the issuance of a proposed SFAS.

5. Multivariate results

5.1. Results using Big N auditors’ comment letters

Table 4 reports OLS estimation results where the measure of decreased “reliability” from auditor comment letters (*dec_relb*) is the dependent variable. There are seven columns to Table 4. In the first three columns, FASB members’ and SEC commissioners’ professional

characteristics are the explanatory variables (as in equation (3)); in columns four to six, FASB members' and SEC commissioners' political affiliations are the explanatory variables (as in equation (4)); the seventh column reports the regression combining all explanatory variables. In the first and fourth columns, we do not include the market-based variables, *VWRETD* and *sd_VWRETD*, as temporal economic controls; in all other columns, these variables are included. In addition, columns two and five do not include auditor fixed effects, whereas columns three, six, and seven do. In the following discussion, we focus on the results from columns three, six, and seven, since these columns have the most exhaustive specifications, only discussing the other columns when inferences differ. All regressions in Table 4 use the sample of 908 comment letters. Standard errors in all regressions are clustered by Big N auditor and SFAS, and are robust to heteroskedasticity.

When professional characteristics are examined independently, we find both *Tenure FASB* and *Tenure SEC* are positively associated with decreased “reliability,” suggesting that longer terms of service on the FASB and SEC are associated with a perception of decreased accounting “reliability” (the coefficient on *Tenure FASB* is insignificant when market-based controls are excluded). If decreased “reliability” is an undesirable accounting property, this result is consistent with longer term-lengths compromising regulatory outcomes, per Stigler’s theory of regulation. To put the coefficients’ magnitudes in perspective, the implication from column (3) is that a one standard deviation increase in FASB tenure (SEC tenure) is associated with a decrease in “reliability” that is about 30% (38%) of the mean *dec_relb* value. We also find evidence that *% Financial FASB* and *% Financial SEC* are positive and significant predictors of FASB proposals perceived as decreasing accounting “reliability.” A one standard deviation increase in *% Financial FASB* (*% Financial SEC*) is associated with a decrease in “reliability” that is about

74% (49%) of the mean *dec_relb* value. This evidence is consistent with the proposition that a prior career in investment banking/ investment management predisposes standard setters to produce standards that deemphasize accounting “reliability.” Contrary to our expectations, we find no evidence in Table 4 linking % *Auditor FASB* and decreased “reliability.”

When political characteristics are examined independently, the coefficient on % *Dem Donor FASB* is significant and negative in explaining *dec_relb*. The implication from column (6) is that a one standard deviation increase in % *Dem Donor FASB* is associated with an increase in “reliability” that is about 64% of the mean *dec_relb* value. The evidence suggests that increased proportional representation of Democrats on the FASB is associated with the production of standards that are viewed as increasing accounting “reliability.” We do not find a similar result with the proportion of Democrats on the SEC.

In combining all explanatory variables in column (7), only the results on % *Financial FASB* and % *Financial SEC* are statistically significant. This result is consistent with prior studies that combine regulators’ professional and political characteristics, where high correlations between these variables and the small population size are seen to confound statistical inferences (Dal Bo, 2006). However, in unreported tests we find variance inflation factors from this regression are inconsistent with severe multicollinearity suggesting that, for our sample, financial services affiliation is the overriding explanatory variable.

Table 5 reports OLS estimation results where the measure of increased “relevance” from auditor comment letters (*inc_relv*) is the dependent variable. Table 5 is otherwise identical to Table 4 in all respects. As in Table 4, we focus on discussing results from columns three, six, and seven of Table 5. When professional characteristics alone are the explanatory variables, we find only % *Financial FASB* is a positive and significant predictor of FASB proposals perceived as

increasing accounting “relevance.” In column (3), one standard deviation increase in % *Financial FASB* is associated with an increase in “relevance” that is about 73% of its mean value. This evidence is consistent with the proposition that a prior career in investment banking/ investment management predisposes standard setters to produce standards that increase accounting “relevance.” When political characteristics alone are the explanatory variables, we find % *Dem Donor FASB* is significant and negative in explaining *inc_relv*. In column (6), one standard deviation increase in % *Dem Donor FASB* is associated with a decrease in “relevance” that is about 65% of the mean *inc_relv* value. Column (6) also reveals a statistically negative association between % *Rep Donor FASB* and proposals perceived as increasing “relevance.” We are not aware of a theory to interpret this result. In combining all explanatory variables in column (7) of Table 5, only the coefficient on % *Financial FASB* is statistically significant.

To summarize the key findings from Tables 4 and 5: across tests using auditor comment letters, the data are consistent with the proposition that a prior career in financial services predisposes FASB standard setters to favor accounting “relevance” over “reliability.”

5.2. Results using manual assessments of exposure drafts

Our primary comment-letter-based measures of decreased “reliability” and increased “relevance” are sensitive to auditors’ distinct incentives, which may be endogenous to our explanatory variables. Accordingly, we use manual assessments by two research assistants, as discussed in Section 3 and Appendix B, as alternative dependent variables (*Manual_dec_relb* and *Manual_inc_relv*) to address this concern.

Table 6 Panel A presents the descriptive statistics for: (A) the exposure drafts common to both our manual and comment-letter sample (n=126); (B) the sub-sample of exposure drafts for

which we only have manual assessments (n=19); and (C) the sub-sample of exposure drafts for which we only have auditor comment letters (n=23). Using a two-sample differences-in-means t-test we compare the average values of explanatory variables across the three groups. Of particular note, *Tenure FASB* and *Tenure SEC* are significantly lower in sub-sample (C), while % *Dem Donor FASB* is significantly higher. These differences are largely caused by data availability for the manually assessed sub-sample. That sub-sample (columns (A) and (B)) excludes several exposure drafts from the early years of the FASB (1980s and before), a period characterized by lower values for *Tenure FASB* and *Tenure SEC* and higher values for % *Dem Donor FASB*, as shown in Figures 1–3.

Table 6 Panel B presents OLS estimation results where *Manual_dec_relb* and *Manual_inc_relv* are the dependent variables. There are six columns to Table 6 Panel B: *Manual_dec_relb* is the dependent variable for the first three columns, *Manual_inc_relv* for the next three. The first column for each dependent variable includes only regulators’ professional characteristics as independent variables; the second column for each dependent variable includes only regulators’ political characteristics as independent variables; the final column for each dependent variable includes both professional and political characteristics. In all columns, we include auditor fixed effects and the market-based controls. Each regression is based on 126 observations, one for each exposure draft where both auditor comment letters and manual assessments are available. Standard errors are heteroskedasticity robust.

The results in Table 6 Panel B show that % *Financial FASB* is a significant determinant of both *Manual_dec_relb* and *Manual_inc_relv*, which is consistent with regression results using auditor comment letters (Tables 4 and 5). As in Table 4, we find a significant negative coefficient on % *Dem Donor FASB* in regressions on *Manual_dec_relb* that include only

political variables; we do not find a similar result on *Manual_inc_relv*. In contrast to Table 4, in Table 6 Panel B we do not find significant coefficients on *Tenure FASB*, *Tenure SEC*, and % *Financial SEC* in regressions on *Manual_dec_relb*. The non-results on the tenure variables are likely explained by the exclusion of several exposure drafts in the Table 6 Panel B regressions due to data limitations, as discussed above.

Overall, to summarize the key findings from Tables 4, 5, and 6: across tests using auditor comment letters and manual assessments of exposure drafts, the data are consistent with the proposition that a prior career in financial services predisposes FASB standard setters to favor accounting “relevance” over “reliability.” Our coding rubric for the manual assessment of exposure drafts’ focus on “relevance” over “reliability” relies on the use of fair-value methods in these proposals (see Appendix B for details). Thus, the key finding on financial services affiliation can be explained, in part, as the tendency of regulators with a financial services background to propose standards that use fair-value methods in recognition and disclosure. When combined with the descriptive evidence from Figure 2 and Table 3, which shows an increase in the proportion of FASB members from financial services from the mid-1990s through 2007, this result can provide a partial explanation for the growth of fair-value accounting.

5.3. Robustness and sensitivity tests

With the small population of FASB and SEC regulators in our sample, there is a concern that one individual with an extremely strong personality can be driving the results described thus far. The analogous literature on managers and firm policies employs technologies around job-switching to address this concern (e.g., Bertrand and Schoar, 2003). Due to the unique nature of the task we study, i.e., standard setting not corporate management, we cannot employ these

technologies. An alternative robustness test is a jackknifing procedure where we re-estimate all our regressions successively eliminating each regulator (and reconstructing all independent variables accordingly) to determine if any member was instrumental to our statistical inferences. Unreported results obtained from this procedure are inconsistent with the proposition that any one FASB member is instrumental to the factors previously identified as statistically significant: Across 39 jackknifed subsamples—each eliminating one FASB member—we find no cases where elimination of an individual from our sample changes the sign or significance of our primary results.¹⁹

The implicit assumption underlying construction of our independent variables is that an exposure draft represents the average position of all extant FASB members and SEC commissioners; however, it is possible that the chairmen of these groups have greater influence than other members. In unreported robustness tests, we examine the effects of assigning greater weight to FASB and SEC chairmen when calculating the average background characteristics of an extant board. In particular, we assign the background characteristics of FASB and SEC chairmen twice the weight of non-chair members. While the choice of doubling the weight on chairmen is admittedly arbitrary, the objective of this test is simply to assess whether the relative importance of FASB chairmen subsumes the results shown earlier. All substantive results discussed in Tables 4 and 5 are robust to the procedure described above.

Finally, as discussed earlier, it is possible that the selection of a set of regulators on the FASB and SEC in a given time period depends, at least in part, on more fundamental macroeconomic conditions. Accordingly, we study the sensitivity of our results to these

¹⁹ The successive elimination of two FASB members in the jackknife procedure does turn, in some cases, the previously insignificant coefficient on *%Auditor FASB* significantly negative (as predicted): one of these members has a financial services background, the other an auditing background. One implication is that our failure to find evidence on *%Auditor FASB* in the regression that includes all independent variables is driven by the influential effects of these members.

conditions. In restricting the sample to periods of expansion in the U.S. economy (as identified by the NBER), financial services background and Democratic Party affiliations remain significant predictors of increased “relevance” (*inc_relv*) and decreased “reliability” (*dec_relb*), consistent with results reported in Tables 4 and 5. The only result from those tables not carrying through is the negative coefficient on *% Rep Donor FASB* on *inc_relv* for which we have no *ex-ante* prediction and which is not consistent across all specifications.

6. Conclusions

Motivated by an interest in broadening the understanding of accounting standard setting beyond the role of constituent comment-letter lobbying and congressional intervention, we examine the role of FASB and SEC regulators in the process. Specifically, we examine how the professional and political characteristics of these regulators vary in the nature of exposure drafts proposed from 1973 to 2007. Because there is no obvious metric to evaluate the proposals, we rely principally on Big N auditors’ contemporaneous evaluations of the exposure drafts along dimensions of “reliability” and “relevance.” Our focus on “reliability” and “relevance” reflects our judgment on their importance to accounting, also evidenced in several leading accounting textbooks and in the FASB’s conceptual framework. The regulators’ professional characteristics we study are tenure, background in auditing, and background in financial services; the political characteristics are affiliation, if any, with the Democratic and Republican parties. Our key finding is that FASB members with a prior professional affiliation with the financial services industry are more likely to propose standards that decrease “reliability” and increase “relevance,” partly due to their tendency to propose fair-value methods of measurement. Given that the proportion of FASB members from the financial services industry has increased from the mid-

1990s to 2007, this finding can provide a partial explanation for the growth of fair-value accounting. We also find that FASB members affiliated with the Democratic Party are more likely to propose standards that increase “reliability” and decrease “relevance,” although only when excluding financial-services affiliation as an independent variable. Since our statistical inferences are based on a small population of FASB and SEC regulators, we conduct jackknifed sensitivity analyses: we find no evidence that any one regulator is driving inferences.

Broadly, the paper provides a first empirical look at an important feature in the political economy of U.S. GAAP: the role of regulators at the FASB and SEC. While our research design does not allow us to distinguish whether the documented role of regulators derives from some intrinsic ideology of these individuals or from more primitive selection effects that place these regulators in office, our study takes the first important step of examining the impact of individual standard setters on standard setting (in the spirit of Bertrand and Schoar’s analogous study of managers on firm policies). Our study highlights opportunities for work on the question of how accounting regulators are chosen, including issues such as whether there is a “revolving door” between standard setters and special-interest groups. Moreover, as accounting institutions worldwide reorganize in response to globalization, such research can have important practical implications in the area of regulatory design.²⁰

²⁰ For example, in the past five years, both Canada and China have undertaken some revamping of their standard-setting institutions (e.g., Ramanna and Cheng, 2009; Ramanna, Donovan, and Dai, 2010). Further, in the U.S., between 2008 and 2010, the FASB has pared down and increased its membership from seven to five and back to seven, in order to “protect and maintain its efficiency” (FAF, 2008, 2010). Given the paucity of evidence to guide such structural changes, most, if not all of the institutional transformations have been *ad hoc*.

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Appendix A

Details of the process for creating auditor-based measures of decreased “reliability” and increased “relevance”

We use a custom-designed Perl script to analyze the Big N auditors’ comments letters. For each comment letter, the Perl program first identifies all instances of the word stems “relevan” and “reliab.” The program then outputs: (1) the exact position within the comment letter where a word stem of interest occurs (the position of a word stem is reported as its word count from the beginning of the document); (2) the entire sentence containing the identified word stem; and (3) the total word count for the letter.

Next, a research assistant (RA) trained in accounting principles, but blind to the intent of our study, manually examines both the first sentence referencing “relevan” and the first sentence referencing “reliab.” On each sentence, the RA determines whether the word stem in question is being used in: (1) a positive context, i.e., whether the letter is indicating that the proposed standard will increase “relevance”/ “reliability;” (2) a negative context, i.e., whether the letter is indicating that the proposed standard will decrease “relevance”/ “reliability;” or (3) a context that is irrelevant to the use of “relevance” and “reliability” as accounting principles. Examples of the RA’s assessments from actual sentences in the comment letters are below.

- Positive context: “We support the approach followed in the Exposure Draft and believe that application of those standards will provide relevant and understandable information as well as an appropriate balance between comparability and flexibility.” Source: Arthur Andersen’s comment letter on proposed SFAS 117.
- Negative context: “We also believe the Proposed Standard exacerbates the complexities of Statement 125 and permits recognition of revenue that cannot be reliably measured.” Source: Deloitte’s comment letter on proposed SFAS 140.
- Irrelevant usage: “The auditor should familiarize himself with the relevant provisions of the partnership agreement.” Source: Arthur Andersen’s comment letter on proposed SFAS 102.

In instances where the research assistant identifies the comment letter’s first use of “relevance”/ “reliability” as irrelevant to accounting principles, the RA proceeds to the second sentence containing the word stem in question. This process continues until the RA encounters either a positive or negative use of “relevance”/ “reliability” or the RA determines that all uses of “relevance”/ “reliability” in the comment letter are irrelevant to accounting principles.

Appendix B

Coding rubric for research-assistant-based measures of decreased “reliability” and increased “relevance”

The research assistants were instructed to evaluate the exposure drafts recording their perspective on whether the underlying proposal would decrease “reliability,” where “reliability” is defined as per the FASB as, “The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent.” The resulting variable is a binary indicator denoted *Manual_dec_relb*. To obtain research assistants’ assessments of exposure drafts’ increased “relevance,” we rely on the following procedure: we asked the research assistants to score each exposure draft on the nature of its use of fair-value accounting. Our focus on “fair values” in measuring “increased relevance” is motivated by the FASB viewing the former as resulting in the latter (e.g., Johnson, 2005). In particular, research assistants scored each exposure draft on a score of 0–5, with unit scores for each of the following: (1) the introduction of fair-value accounting for asset write-downs; (2) the introduction of fair-value accounting for asset recognition and remeasurement; (3) the introduction of fair-value accounting for liability recognition and remeasurement; (4) the recognition of fair-value changes in the income statement; and (5) the required disclosure of fair-value amounts. The resulting count variable is denoted, *Manual_inc_relv*.

Assessing *Manual_dec_relb* and the components of *Manual_inc_relv* requires the exercise of professional judgment. Accordingly, both research assistants employed for this task are seasoned professionals, with MBA degrees from top-ranked U.S. business schools (as per U.S. News rankings) and with combined industrial work experience in finance and accounting exceeding thirty years. We recruited both research assistants specifically to evaluate the FASB exposure drafts, and both were selected for their practical familiarity with accounting.

Of the 145 exposure drafts coded by the two research assistants, 105 received identical evaluations on *Manual_dec_relb*, while 114 received identical evaluations on *Manual_inc_relv*. On the exposure drafts with differing evaluations, the research assistants were able to resolve all differences in subsequent discussions. At no point in this process were the research assistants apprised of the study’s hypotheses or its independent variables. Research assistants were compensated on a flat hourly wage (i.e., no performance-based pay).

Appendix C

Variable definitions

VARIABLE	DESCRIPTION
<i>Dependent Variables</i>	
<i>inc_relv</i>	Assessment that a proposed SFAS will increase accounting "relevance" as expressed by the Big 8/6/5/4 auditors (hereafter "Big N auditors") in their comment letters. See Section 3.
<i>dec_relb</i>	Assessment that a proposed SFAS will decrease accounting "reliability" as expressed by the Big N auditors in their comment letters. See Section 3.
<i>Manual_inc_relv</i>	Assessment that a proposed SFAS will increase "relevance" as determined by 2 independent reviewers. See Section 3.
<i>Manual_dec_relb</i>	Assessment that a proposed SFAS will decrease "reliability" as determined by 2 independent reviewers. See Section 3.
<i>FASB & SEC Professional Characteristics</i>	
<i>Tenure FASB</i>	Exposure draft (ED)-level measure of the average tenure in years of all extant FASB members
<i>% Auditor FASB</i>	ED-level measure of the proportion of extant FASB members with most recent former employ in auditing.
<i>% Financial FASB</i>	ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/investment management
<i>Tenure SEC</i>	ED-level measure of the average tenure in years of all extant SEC commissioners
<i>% Financial SEC</i>	ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services
<i>FASB & SEC Political Characteristics</i>	
<i>%Rep Donor FASB</i>	ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican party or candidates.
<i>% Dem Donor FASB</i>	ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic party or candidates
<i>% Democrat SEC</i>	ED-level measure of the proportion of extant Democratic SEC commissioners.
<i>Other Variables</i>	
<i>VWRETD</i>	Annual value-weighted market return (from CRSP) for the 12 months directly preceding the month in which ED was issued.
<i>sd_VWRETD</i>	Standard deviation of daily VWRETD (CRSP) for the 12 months directly proceeding the month in which an ED was issued

Appendix D

Dependent variable scores by exposure draft

SFAS	ED Title	ED Date	dec_relb	inc_relv	Manual_ dec_relb	Manual_ inc_relv
SFAS001	Disclosure of Foreign Currency Translation Information	10/19/73	0.000	0.000	NA	NA
SFAS002	Accounting for Research and Development Costs	06/05/74	0.000	0.000	NA	NA
SFAS003	Reporting Accounting Changes in Interim Financial Statements: an amendment of APB Opinion No. 28	11/11/74	0.000	0.000	0.000	0.000
SFAS004	Reporting Gains and Losses and Extinguishments of Debt: an amendment of APB Opinion No. 30	01/31/75	0.000	0.000	NA	NA
SFAS005	Accounting for Contingencies	10/21/74	0.000	0.000	NA	NA
SFAS006	Classification of Short-term Obligations Expected to Be Refinanced: an amendment of ARB No. 43, Chapter 3, Section A	11/11/74	0.000	0.000	NA	NA
SFAS007	Accounting and Reporting by Development Stage Companies, Subsidiaries, Divisions and Other Components	07/19/74	0.000	0.000	NA	NA
SFAS008	Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements	12/31/74	0.000	0.000	NA	NA
SFAS009	Accounting for Income Taxes--Oil and Gas Producing Companies: an amendment of APB Opinions No. 11 and 23	04/25/75	0.000	0.000	NA	NA
SFAS010	Extension of "Grandfather" Provisions for Business Combinations: An Amendment of APB Opinion No. 16	09/08/75	0.000	0.000	NA	NA
SFAS011	Accounting for Contingencies--Transition Method: An Amendment of FASB Statement No. 5	10/31/75	0.000	0.000	NA	NA
SFAS012	Accounting for Certain Marketable Securities	11/06/75	0.000	0.000	NA	NA
SFAS013	Accounting for Leases	08/26/75	0.000	0.000	NA	NA
SFAS013	Accounting for Leases: Revision of Exposure Draft Issued August 26, 1975	07/22/76	0.000	0.000	NA	NA
SFAS014	Financial Reporting for Segments of a Business Enterprise	09/30/75	0.094	0.000	NA	NA
SFAS015	Restructuring of Debt in a Troubled Loan Situation	11/07/75	0.000	0.000	NA	NA
SFAS015	Accounting by Debtors and Creditors for Troubled Debt Restructurings	12/30/76	NA	NA	1.000	0.000
SFAS016	Prior Period Adjustments	07/29/76	0.000	0.000	NA	NA
SFAS017	Accounting for Leases--Initial Direct Costs: An Amendment of FASB Statement No. 13	08/08/77	0.000	0.000	0.000	0.000
SFAS018	Financial Reporting for Segments of a Business Enterprise--Interim Financial Statements: An Amendment of FASB Statement No. 14	09/20/77	0.000	0.000	0.000	0.000
SFAS019	Financial Accounting and Reporting by Oil and Gas Producing Companies	07/15/77	0.000	0.000	0.000	0.000
SFAS020	Accounting for Forward Exchange Contracts / an amendment of FASB Statement No. 8	11/07/77	0.000	0.000	0.000	0.000
SFAS021	Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises: an amendment of APB Opinion No. 15	02/27/78	0.000	0.000	0.000	0.000
SFAS022 /SFAS023	Accounting for Leases: I Inception of the Lease: An Amendment of FASB Statement No. 13 II Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt: an amendment of FASB Statement No. 13	12/19/77	0.000	0.000	0.000	0.000
SFAS024	Reporting Segment Information in Financial Statements That Are Presented With Another Enterprise's Financial Report: an amendment of FASB Statement No. 14	07/19/78	0.000	0.000	0.000	0.000
SFAS025	Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies: an amendment of FASB Statement No. 19	11/07/78	0.000	0.000	0.000	0.000
SFAS026	Profit Recognition on Sales-Type Leases of Real Estate: an amendment of FASB Statement No. 13	12/22/78	0.000	0.000	0.000	0.000
SFAS027	Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases: an amendment of FASB Statement No. 13	02/13/79	0.000	0.000	0.000	0.000
SFAS028	Accounting for Sales with Leasebacks: an amendment of FASB Statement No. 13	12/21/78	0.000	0.000	1.000	0.000
SFAS029	Determining Contingent Rentals	12/21/78	0.000	0.000	0.000	0.000
SFAS030	Disclosure of Information about Major Customers: an amendment of FASB Statement No. 14	03/29/79	0.000	0.000	0.000	0.000
SFAS031	Accounting for Income Taxes Related to U.K. Tax Legislation Concerning Stock Relief	07/30/79	0.000	0.000	1.000	0.000
SFAS032	Specialized Accounting and Reporting Principles and Practices in AICPA Industry Accounting Guides, Industry Audit Guides, and Statements of Position: an amendment of APB Opinion No. 20	06/01/79	0.000	0.000	0.000	0.000
SFAS033	Financial Reporting in Units of General Purchasing Power	12/31/74	NA	NA	NA	NA
SFAS033	Financial Reporting and Changing Prices	12/28/78	NA	NA	0.000	0.000
SFAS033	Constant Dollar Accounting: supplement to an exposure draft of a proposed Statement of Financial Accounting Standards, Financial Reporting in Units of General Purchasing Power	03/02/79	0.086	0.000	0.000	0.000
SFAS034	Capitalization of Interest Cost	12/15/78	0.000	0.000	0.000	0.000
SFAS035	Accounting and Reporting by Defined Benefit Pension Plans	04/14/77	0.000	0.116	1.000	4.000
SFAS035	Accounting and Reporting by Defined Benefit Pension Plans: revision of exposure draft issued April 14, 1977	07/09/79	NA	NA	1.000	3.000
SFAS036	Disclosure of Pension and Other Post-Retirement Benefit Information: an amendment of APB Opinion No. 8	07/12/79	0.000	0.000	0.000	0.000
SFAS037	Balance Sheet Classification of Deferred Income Taxes: an amendment of APB Opinion No. 11	03/14/80	0.000	0.000	0.000	0.000
SFAS038	Accounting for Preacquisition Contingencies of Purchased Enterprises: an amendment of APB Opinion No. 16	12/26/79	0.000	0.000	1.000	0.000
SFAS039 /SFAS040/S FAS041	Financial Reporting and Changing Prices: Specialized Assets—a supplement to FASB Statement No. 33	04/21/80	0.448	0.130	0.000	1.000

Appendix D ...Cont.

SFAS	ED Title	ED Date	dec_relb	inc_relv	Manual_ dec_relb	Manual_ inc_relv
SFAS042	Determining Materiality for Capitalization of Interest Cost: an amendment of FASB Statement No. 34	04/22/80	0.000	0.000	0.000	0.000
SFAS043	Accounting for Compensated Absences	12/17/79	0.050	0.000	0.000	0.000
SFAS044	Accounting for Intangible Assets of Motor Carriers: an amendment of Chapter 5 of ARB 43 and an interpretation of APB Opinions 17 and 30	10/24/80	0.000	0.000	0.000	0.000
SFAS045	Accounting for Franchise Fee Revenue	12/01/80	0.000	0.000	NA	NA
SFAS046	Financial Reporting and Changing Prices: Motion Picture Films; a supplement to FASB Statement No. 33	02/09/81	0.000	0.057	0.000	0.000
SFAS047	Disclosure of Guarantees, Project Financing Arrangements, and Other Similar Obligations: an amendment of FASB Statement No. 5	03/31/80	0.000	0.000	0.000	0.000
SFAS047	Disclosure of Obligations: I Disclosure of Indirect Guarantees of Indebtedness of Others: an interpretation of FASB Statement No. 5	11/14/80	NA	NA	0.000	0.000
SFAS048 /SFAS049	Accounting for Certain Product Sales I Revenue Recognition When Right of Return Exists II Accounting for Product Financing Arrangements	02/09/81	0.000	0.000	NA	NA
SFAS050 /SFAS051 /SFAS053 /SFAS063	Accounting by the Entertainment Industry I Motion Picture Films II Broadcasting III Cable Television IV Records & Music	06/12/81	0.000	0.000	NA	NA
SFAS052	Foreign Currency Translation	08/28/80	NA	NA	0.000	0.000
SFAS052	Foreign Currency Translation; revision of exposure draft issued August 28, 1980	06/30/81	0.104	0.000	NA	NA
SFAS054	Financial Reporting and Changing Prices: Investment Companies: an amendment of FASB Statement No. 33	11/16/81	0.000	0.000	0.000	0.000
SFAS055	Determining whether a Convertible Security is a Common Stock Equivalent: an amendment of APB Opinion No. 15	11/06/81	0.093	0.000	0.000	0.000
SFAS056	Applicability of FASB Statement No. 32 to AICPA Statements of Position and Guides on Accounting and Auditing Matters: an amendment of FASB Statement No. 32	11/06/81	0.000	0.000	1.000	0.000
SFAS057	Related Party Disclosures	11/06/81	0.125	0.000	0.000	0.000
SFAS058	Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by The Equity Method; an amendment of FASB	09/30/81	0.000	0.000	0.000	0.000
SFAS059	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units: an amendment of FASB Statement No. 35	02/22/82	0.000	0.000	0.000	0.000
SFAS060 /SFAS061	Accounting by the Insurance Industry I Accounting and Reporting by Insurance Enterprises II Accounting for Title Plant	11/18/81	0.000	0.000	0.000	0.000
SFAS062	Capitalization of Interest Cost in Situations Involving Tax-Exempt Borrowings and Certain Gifts and Grants: an amendment of FASB Statement No. 34	12/22/81	0.000	0.000	1.000	0.000
SFAS064	Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements: an amendment of FASB Statement No. 4	02/23/82	0.000	0.000	0.000	0.000
SFAS065	Accounting for Certain Mortgage Banking Activities	02/03/82	0.000	0.000	0.000	0.000
SFAS066 /SFAS067	Accounting for Certain Real Estate Transactions I Accounting for Costs and Initial Rental Operations of Real Estate Projects II Accounting for Sales of Real Estate	12/15/81	0.000	0.000	0.000	0.000
SFAS068	Research and Development Arrangements	04/27/82	0.000	0.000	1.000	0.000
SFAS069	Disclosures about Oil and Gas Producing Activities: an amendment of FASB Statements 19 and 25	04/15/82	0.000	0.000	0.000	1.000
SFAS070	Financial Reporting and Changing Prices: Foreign Currency Translation: an amendment of FASB Statement No. 33	12/22/81	NA	NA	0.000	0.000
SFAS070	Financial Reporting and Changing Prices: Foreign Currency Translation: an amendment of FASB Statement No. 33 (Revision of 12/22/81 ED)	08/19/82	0.000	0.000	0.000	0.000
SFAS071	Accounting for the Effects of Regulation of an Enterprise's Prices Based on Its Costs	03/04/82	0.061	0.000	1.000	0.000
SFAS072	Accounting for Certain Acquisitions of Banking or Thrift Institutions: an amendment of APB Opinion No. 17 and an interpretation of APB Opinion No. 16	10/07/82	0.000	0.000	0.000	0.000
SFAS073	Reporting a Change in Accounting for Railroad Track Structures: an amendment of APB Opinion No. 20	04/12/83	0.000	0.000	0.000	0.000
SFAS074	Accounting for Special Termination Benefits Paid to Employees	12/28/82	0.000	0.000	1.000	0.000
SFAS075	Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units: an amendment of FASB Statement No. 35	06/07/83	0.000	0.000	0.000	0.000
SFAS076	Extinguishment of Debt and the Offsetting of Restricted Assets against Related Debt: an amendment of APB Opinion No. 26 and FASB Statement No. 34	10/13/82	NA	NA	0.000	0.000
SFAS076	Extinguishment of Debt: an amendment of APB Opinion No. 26 (Revision of 10/31/82 ED)	07/14/83	0.000	0.000	0.000	0.000
SFAS077	Accounting and Reporting by Transferors for Transfers of Receivables with Recourse	11/18/81	NA	NA	0.000	0.000
SFAS077	Reporting by Transferors for Transfers of Receivables with Recourse (Revision of 11/18/81 ED)	08/31/82	0.000	0.000	0.000	0.000
SFAS078	Classification of Obligations That Are Callable by the Creditor: an amendment of Chapter 3A of ARB No. 43	07/30/82	0.000	0.000	0.000	0.000
SFAS079	Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises: an amendment of APB Opinion No. 16	10/04/83	0.000	0.000	0.000	0.000
SFAS080	Accounting for Futures Contracts	07/14/83	0.239	0.000	0.000	2.000
SFAS081	Disclosure of Postretirement Health Care and Life Insurance Benefits Information	07/03/84	0.000	0.000	0.000	0.000
SFAS082	Financial Reporting and Changing Prices: Elimination of Certain Disclosures: an amendment of FASB Statement No. 33	10/10/84	0.000	0.000	0.000	0.000
SFAS083	Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20: an amendment of FASB Statement No. 32 and a rescission of FASB Interpretation No. 10	12/06/84	0.000	0.000	NA	NA
SFAS084	Induced Conversions of Convertible Debt: an amendment of APB Opinion No. 26	12/06/84	0.000	0.000	0.000	0.000
SFAS085	Yield Test for Determining whether a Convertible Security is a Common Stock Equivalent: an amendment of APB Opinion No. 15	12/06/84	0.000	0.000	0.000	0.000

Appendix D ...Cont.

SFAS	ED Title	ED Date	dec_relb	inc_relv	Manual_ dec_relb	Manual_ inc_relv
SFAS086	Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed	08/31/84	0.471	0.000	1.000	2.000
SFAS087	Employers' Accounting for Pensions	03/22/85	0.096	0.000	NA	NA
SFAS088	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits	06/14/85	0.000	0.000	0.000	0.000
SFAS089	Financial Reporting and Changing Prices: Current Cost Information	12/14/84	NA	NA	0.000	0.000
SFAS089	Financial Reporting and Changing Prices	09/30/86	NA	NA	0.000	0.000
SFAS090 /SFAS092	Regulated Enterprises -- Accounting for Phase-in Plans, Abandonments, and Disallowances of Plant Costs: an amendment of FASB Statement No. 71	12/19/85	0.000	0.000	NA	NA
SFAS091	Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans: an amendment of FASB Statements 13, 60, and 65 and a rescission of FASB Statement No. 17	12/31/85	0.000	0.000	0.000	0.000
SFAS093	Recognition of Depreciation by Not-for-Profit Organizations	12/23/86	0.000	0.000	0.000	0.000
SFAS094	Consolidation of All Majority-Owned Subsidiaries—an amendment of ARB No. 51, with related amendments of APB Opinion No. 18 and ARB No. 43, Chapter 12	12/16/86	0.000	0.013	0.000	0.000
SFAS095	Reporting Income, Cash Flows, and Financial Position of Business Enterprises	11/16/81	NA	NA	0.000	0.000
SFAS095	Statement of Cash Flows	07/31/86	0.000	0.122	0.000	0.000
SFAS096	Accounting for Income Taxes	09/02/86	0.023	0.157	0.000	0.000
SFAS097	Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Insurance Contracts and for Realized Gains and Losses from the Sale of Investments	12/23/86	0.000	0.000	1.000	0.000
SFAS098	Sale and Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases	08/31/87	NA	NA	0.000	0.000
SFAS099	Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations	06/06/88	0.000	0.000	0.000	0.000
SFAS100	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96: an amendment of FASB Statement No. 96	10/13/88	0.000	0.000	0.000	0.000
SFAS101	Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71	07/08/88	NA	NA	0.000	0.000
SFAS102	Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Held for Resale	11/30/88	0.000	0.000	0.000	0.000
SFAS103	Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement No. 96: an amendment of FASB Statement No. 96	10/19/89	NA	NA	NA	NA
SFAS104	Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions	07/25/89	0.000	0.151	0.000	0.000
SFAS105	Disclosure about Financial Instruments	11/30/87	NA	NA	1.000	1.000
SFAS105	Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial instruments with Concentrations of Credit Risk	07/21/89	0.000	0.000	0.000	0.000
SFAS106	Employers' Accounting for Postretirement Benefits Other Than Pensions	02/14/89	0.533	0.000	1.000	4.000
SFAS107	Disclosures about Market Value of Financial Instruments	12/31/90	0.244	0.593	1.000	1.000
SFAS108	Accounting for Income Taxes—Deferral of the Effective Date of Statement No. 96, an amendment of FASB Statement No. 96	06/17/91	0.000	0.000	0.000	0.000
SFAS109	Accounting for Income Taxes	06/05/91	NA	NA	0.000	0.000
SFAS110	Reporting by Defined Benefit Pension Plans of Investment Contracts: an amendment of FASB Statement No. 35	03/20/92	0.000	0.326	1.000	1.000
SFAS111	Rescission of FASB Statement No. 32 and Technical Corrections	06/30/92	0.000	0.000	0.000	0.000
SFAS112	Employers' Accounting for Postretirement Benefits: an amendment of FASB Statements No. 5 and 43	05/12/92	0.000	0.000	0.000	0.000
SFAS113	Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts	03/20/92	0.049	0.121	0.000	0.000
SFAS114	Accounting by Creditors for Impairment of a Loan: an amendment of FASB Statements No. 5 and 15	06/30/92	0.210	0.124	1.000	2.000
SFAS115	Accounting for Certain Investments in Debt and Equity Securities	09/09/92	0.507	0.000	1.000	4.000
SFAS116	Accounting for Contributions Received and Contributions Made and Capitalization of Works of Art, Historical Treasurers, and Similar Assets	10/31/90	0.000	0.000	1.000	2.000
SFAS116	Accounting for Contributions Received and Contributions Made (Revision of 10/31/90 ED)	11/17/92	0.379	0.000	1.000	0.000
SFAS117	Financial Statements of Not-for-Profit Organizations	10/23/92	0.000	0.589	0.000	0.000
SFAS118	Accounting by Creditors for Impairment of a Loan—Income Recognition: an amendment of FASB Statement No. 114	03/31/94	0.000	0.000	0.000	0.000
SFAS119	Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments	04/14/94	0.000	0.137	0.000	1.000
SFAS120	Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts: an amendment of FASB Statements No. 60, 97, and 113 (Includes Proposed AICPA Statement of Position, Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises)	03/24/94	0.000	0.000	0.000	0.000
SFAS121	Accounting for the Impairment of Long-Lived Assets	11/29/93	0.000	0.000	1.000	3.000
SFAS122	Accounting for Mortgage Servicing Rights and Excess Servicing Receivables and for Securitization of Mortgage Loans an amendment of FASB Statement No. 65	06/28/94	0.148	0.030	1.000	4.000
SFAS123	Accounting for Stock-Based Compensation	06/30/93	0.372	0.000	1.000	2.000
SFAS123R	Share-Based Payment: an amendment of FASB Statements No. 123 and 95	03/31/04	0.318	0.466	0.000	2.000
SFAS124	Accounting for Certain Investments Held by Not-for-Profit Organizations	03/31/95	NA	NA	0.000	3.000

Appendix D ...Cont.

SFAS	ED Title	ED Date	dec_relb	inc_relv	Manual_ dec_relb	Manual_ inc_relv
SFAS125	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	10/24/95	0.510	0.120	1.000	2.000
SFAS126	Elimination of Certain Disclosures about Financial Instruments by Small Nonpublic Entities: an amendment of FASB Statement No. 107	09/20/96	0.000	0.000	0.000	0.000
SFAS127	Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125: an amendment of FASB Statement No. 125	11/11/96	0.000	0.000	0.000	0.000
SFAS128 /SFAS129	Earnings per Share and Disclosure of Information about Capital Structure	01/19/96	0.000	0.135	0.000	0.000
SFAS130	Reporting Comprehensive Income	06/20/96	0.000	0.000	0.000	0.000
SFAS131	Reporting Disaggregated Information about a Business Enterprise	01/19/96	0.018	0.000	1.000	0.000
SFAS132	Employers' Disclosures about Pensions and Other Postretirement Benefits: an amendment of FASB Statements No. 87, 88, and 106	06/30/97	0.000	0.000	0.000	1.000
SFAS132R	Employers' Disclosures about Pensions and Other Postretirement Benefits: an amendment of FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132	09/12/03	0.163	0.131	0.000	1.000
SFAS133	Accounting for Derivative and Similar Financial Instruments and for Hedging Activities	06/20/96	0.101	0.046	1.000	3.000
SFAS134	Accounting for Mortgage-Backed Securities and Certain Other Interests Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise: an amendment of FASB Statement No. 65	4/10/98	0.000	0.000	1.000	2.000
SFAS135	Amendments to FASB Statement No. 66, Rescission of FASB Statement No. 75, and Technical Corrections	10/13/98	0.000	0.000	0.000	0.000
SFAS136	Transfers of Assets in Which a Not-for-Profit Organization Acts as an Agent, Trustee, or Intermediary: an Interpretation of FASB Statement No. 116	12/29/95	NA	NA	0.000	0.000
SFAS136	Transfers of Assets involving a Not-for-Profit Organization That Raises or Holds Contributions for Others	07/17/98	0.000	0.000	0.000	3.000
SFAS137	Accounting for Derivative Instruments and Hedging Activities—Deferral of the Elective Date of FASB Statement No. 133: an amendment of FASB Statement No. 133	05/20/99	0.000	0.000	0.000	0.000
SFAS138	Accounting for Certain Derivative instruments and Certain Hedging Activities: an amendment of FASB Statement No. 133	03/03/00	0.000	0.000	0.000	0.000
SFAS139	Rescission of FASB Statement No. 53	10/16/98	0.000	0.000	0.000	0.000
SFAS140	Accounting for Transfers of Financial Assets: an amendment of FASB Statement No. 125	06/28/99	0.378	0.000	1.000	2.000
SFAS141 /SFAS142	Business Combinations and Intangible Assets	09/07/99	0.461	0.152	1.000	3.000
SFAS141R	Business Combinations: a replacement of FASB Statement No. 141	06/30/05	0.909	0.477	1.000	5.000
SFAS142	Business Combinations and Intangible Assets—Accounting for Goodwill (Revision of 9/7/99 ED)	02/14/01	0.647	0.041	1.000	3.000
SFAS143	Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets	02/07/96	0.000	0.000	1.000	1.000
SFAS143	Accounting for Obligations Associated with the Retirement of Long-Lived Assets (Revision of 2/7/96 ED)	02/17/00	0.452	0.278	1.000	0.000
SFAS144 /SFAS146	Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections	11/15/01	0.158	0.376	1.000	2.000
SFAS145	Accounting for the Impairment or Disposal of Long-Lived Assets and for Obligations Associated with Disposal Activities	06/30/00	0.000	0.000	0.000	0.000
SFAS145	Rescission of FASB Statements No. 4, 44, and 64 and Technical Corrections—Amendment of FASB Statement No. 13 (Revision of 11/15/01 ED)	02/14/02	0.000	0.000	0.000	0.000
SFAS147	Acquisitions of Certain Financial Institutions: an amendment of FASB Statements No. 72 and No. 144 and FASB Interpretation No. 9	05/10/02	0.000	0.000	1.000	3.000
SFAS148	Accounting for Stock-Based Compensation—Transition and Disclosure: and amendment of FASB Statement No. 123	10/04/02	0.000	0.000	1.000	1.000
SFAS149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities	05/01/02	0.132	0.000	0.000	1.000
SFAS150	Accounting for Financial Instruments with Characteristics of Liabilities: Equity, or Both	10/27/00	0.297	0.000	0.000	0.000
SFAS151	Inventory Costs: an amendment of ARB No. 43, Chapter 4	12/15/03	0.000	0.000	0.000	0.000
SFAS152	Accounting for Real Estate Time-Sharing Transactions: an amendment of FASB Statements No. 66 and 67	02/20/03	0.000	0.000	0.000	0.000
SFAS153	Exchanges of Productive Assets: an amendment of ABP Opinion No. 29	12/15/03	0.161	0.000	1.000	1.000
SFAS154	Accounting Changes and Error Corrections: a replacement of ABP Opinion No. 20 and FASB Statement No. 3	12/15/03	0.000	0.000	1.000	0.000
SFAS155	Accounting for Certain Hybrid Financial Instruments: an amendment of FASB Statements No. 133 and 140	08/11/05	0.190	0.397	1.000	2.000
SFAS156	Qualifying Special-Purpose Entities and Isolation of Transferred Assets: an amendment of FASB Statement No. 140	06/10/03	NA	NA	1.000	0.000
SFAS156	Accounting for Servicing of Financial Assets: an amendment of FASB Statement No. 140 (Revision of 6/10/03 ED)	08/11/05	0.003	0.113	1.000	4.000
SFAS156	Accounting for Transfers of Financial Assets: an amendment of FASB Statement No. 140 (Revision of 6/10/03 ED)	08/11/05	NA	NA	1.000	0.000
SFAS157	Fair Value Measurements	06/23/04	0.599	0.245	0.000	2.000
SFAS158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R)	03/31/06	0.000	0.000	0.000	1.000
SFAS159	The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No. 115	01/25/06	0.451	0.669	1.000	4.000
SFAS160	Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries: a replacement of ARB No. 51	06/30/05	0.586	0.000	1.000	4.000

Figure 1

Average tenure of FASB members and SEC commissioners by proposed SFAS, 1973–2007

The sample is the 157 proposed SFAS issued between 1973 and 2007 on which the Big N auditors filed comment letters. *Tenure FASB* is an exposure draft (ED)-level measure of the average tenure in years of all extant FASB members. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners.

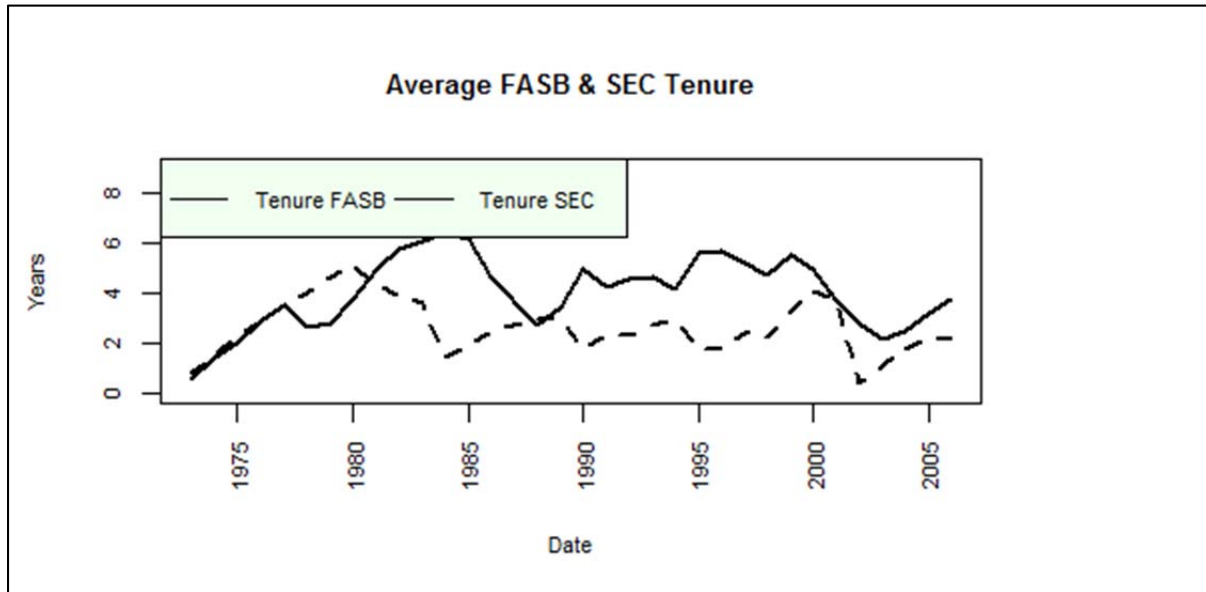


Figure 2

Proportion of FASB members and SEC commissioners with prior employment in auditing and financial services

The sample is the 157 proposed SFAS issued between 1973 and 2007 on which the Big N auditors filed comment letters. % *Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. % *Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/ investment management. % *Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services.

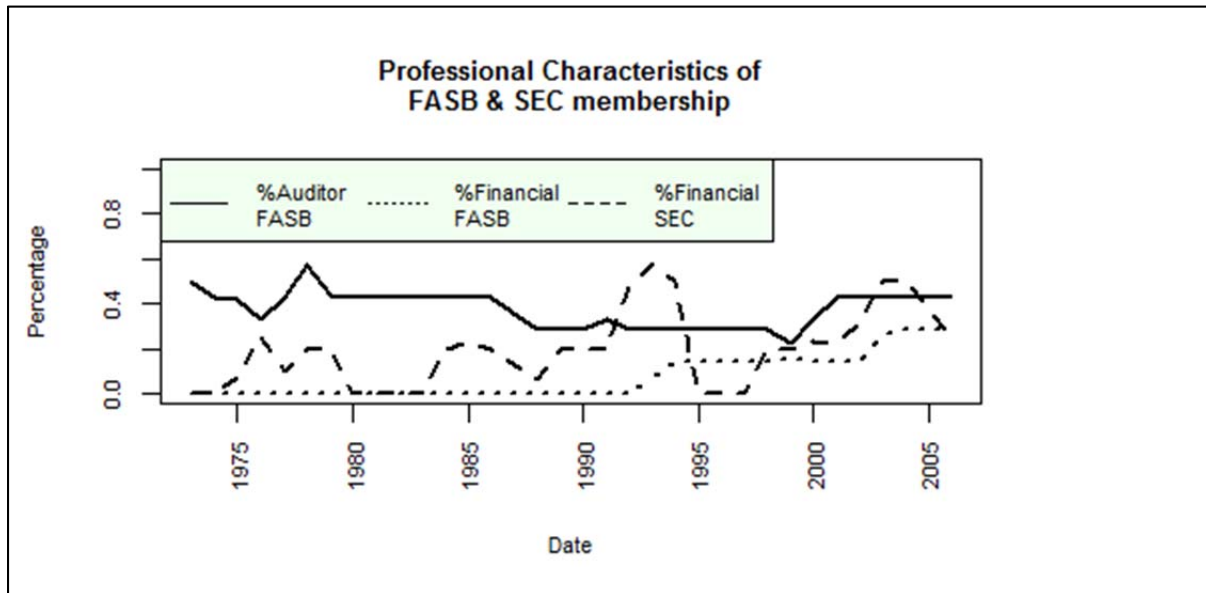


Figure 3

Proportion of FASB members and SEC commissioners by political identity

The sample is the 157 proposed SFAS issued between 1973 and 2007 on which the Big N auditors filed comment letters. *%Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. *% Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *% Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners.

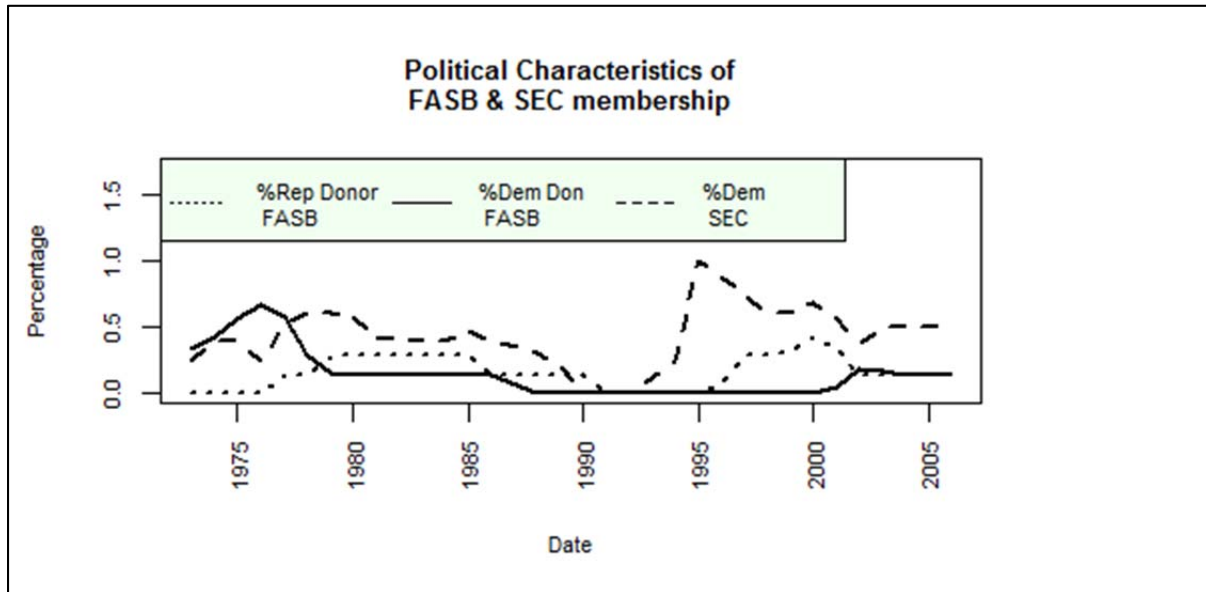


Table 1**Big N auditor comment-letter availability**

The sample is the 157 proposed SFAS issued between 1973 and 2007 on which the Big N auditors filed comment letters.

Era	Big 8	Big 6	Big 5	Big 4
Period	1973-1989	1989-1998	1998-2002	2002-2007
Audit Firms	Arthur Anderson	Arthur Anderson	Arthur Anderson	
	Arthur Young Ernst & Whinney/ Ernst & Ernst	Ernst & Young	Ernst & Young	Ernst & Young
	Touche Ross Deloitte, Haskin & Sells	Deloitte Touche	Deloitte Touche	Deloitte Touche
	Peat Marwick Coopers Lybrand Price Waterhouse	KPMG Coopers Lybrand Price Waterhouse	KPMG PWC	KPMG PWC
# of SFAS issued	104	30	10	19
# SFAS w/ zero CLs	4 <i>SFAS 89, 98, 101, 103</i>	2 <i>SFAS 109, 124</i>	0	0
Remaining Sample	100	28	10	19

The four proposed SFAS from 1973–1989 with no comment letters from the Big 8 are: SFAS 89 (which made supplementary information of price-level information voluntary); SFAS 98 (accounting for sale-leasebacks); SFAS 101 (disclosure issues in certain regulated entities); and SFAS 103 (resetting the effective date of another standard). The two proposed SFAS from 1989–1998 with no comment letters from the Big 6 are: SFAS 109 (re: accounting for income taxes) and SFAS 124 (re: accounting for certain investments held by non-profits).

Table 2**Summary statistics of and correlations between measures of decreased “reliability” and increased “relevance”**

The sample is based on 157 proposed SFAS issued between 1973 and 2007. *inc_relv* is an assessment that a proposed SFAS will increase accounting “relevance” as expressed by the Big 8/6/5/4 auditors (hereafter “Big N auditors”) in their comment letters. *dec_relb* is an assessment that a proposed SFAS will decrease accounting “reliability” as expressed by the Big N auditors in their comment letters. *Manual_inc_relv* is an assessment that a proposed SFAS will increase “relevance” as determined by two independent reviewers. *Manual_dec_relb* is an assessment that a proposed SFAS will decrease “reliability” as determined by two independent reviewers. See Section 3 for details.

PANEL A: Summary statistics

Variable	Mean	Median	S.D.	Maximum	Minimum
<i>dec_relb</i>	0.07	0.00	0.22	0.99	0.00
<i>inc_relv</i>	0.04	0.00	0.17	0.98	0.00
<i>Manual_dec_relb</i>	0.31	0.00	0.46	1.00	0.00
<i>Manual_inc_relv</i>	0.65	0.00	1.20	5.00	0.00

PANEL B: Pearson correlations (Spearman above the diagonal)

Variable	(1)	(2)	(3)	(4)
(1) <i>dec_relb</i>	1.000	0.205 **	0.347 ***	0.502 ***
(2) <i>inc_relv</i>	0.225 ***	1.000	0.151 *	0.238 ***
(3) <i>Manual_dec_relb</i>	0.341 ***	0.147 *	1.000	0.596 ***
(4) <i>Manual_inc_relv</i>	0.502 ***	0.203 **	0.609 ***	1.000

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level using a 2 tailed test with S.E. clustered by SFAS

Table 3 Panel A**Summary statistics on explanatory variables**

The sample is based on the 157 proposed SFAS issued between 1973 and 2007 on which the Big N auditors filed comment letters. *Tenure FASB* is an ED-level measure of the average tenure in years of all extant FASB members. *% Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. *% Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/ investment management. *%Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. *% Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners. *% Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services. *% Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners.

Variable	Mean	Median	S.D.	Maximum	Minimum
<i>FASB & SEC Professional Characteristics</i>					
<i>Tenure FASB</i>	4.2	4.3	1.5	6.7	0.6
<i>% Auditor FASB</i>	39.52%	42.86%	7.80%	57.14%	16.67%
<i>% Financial FASB</i>	4.35%	0.00%	8.05%	28.57%	0.00%
<i>Tenure SEC</i>	3.1	3.0	1.2	6.2	0.2
<i>% Financial SEC</i>	15.15%	20.00%	16.62%	66.67%	0.00%
<i>FASB & SEC Political Characteristics</i>					
<i>% Rep Donor FASB</i>	18.01%	14.29%	12.37%	42.86%	0.00%
<i>% Dem Donor FASB</i>	16.73%	14.29%	17.20%	66.67%	0.00%
<i>% Democrat SEC</i>	44.99%	40.00%	20.22%	100.00%	0.00%

Table 3 Panel B

Pearson correlations between explanatory variables (Spearman above the diagonal)

The sample is based on the 157 proposed SFAS issued between 1973 and 2007 on which the Big N auditors filed comment letters. *Tenure FASB* is an ED-level measure of the average tenure in years of all extant FASB members. *% Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. *% Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/ investment management. *%Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. *% Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners. *% Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services. *% Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners.

		FASB/SEC Professional Characteristics					FASB/SEC Political Charac.		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FASB/SEC Professional Characteristics	(1) <i>Tenure FASB</i>	1.000	-0.255 ***	0.022	0.002	-0.155 *	0.441 ***	-0.447 ***	0.020
	(2) <i>% Auditor FASB</i>	-0.276 ***	1.000	-0.405 ***	0.295 ***	-0.175 **	0.229 ***	0.787 ***	0.175 **
	(3) <i>% Financial FASB</i>	-0.035	-0.311 ***	1.000	-0.356 ***	0.351 ***	-0.066	-0.448 ***	0.348 ***
	(4) <i>Tenure SEC</i>	0.053	0.282 ***	-0.365 ***	1.000	-0.306 ***	0.531 ***	0.093	0.193 **
	(5) <i>% Financial SEC</i>	-0.122	-0.215 ***	0.403 ***	-0.320 ***	1.000	-0.222 ***	-0.245 ***	-0.146 *
FASB/SEC Political Characteristics	(6) <i>% Rep Donor FASB</i>	0.428 ***	0.216 ***	-0.067	0.529 ***	-0.275 ***	1.000	-0.108	0.346 ***
	(7) <i>% Dem Donor FASB</i>	-0.521 ***	0.519 ***	-0.320 ***	-0.030	-0.249 ***	-0.284 ***	1.000	0.052
	(8) <i>% Democrat SEC</i>	0.068	0.149 *	0.336 ***	0.135 *	-0.341 ***	0.284 ***	0.022	1.000

Table 4**OLS regression of *dec_relb* on the characteristics of FASB members and SEC commissioners**

Sample is 908 big auditor comment letters written on 149 exposure drafts that became 157 SFAS issued between 1973 and 2007. *dec_relb* is an assessment that a proposed SFAS will decrease accounting “reliability” as expressed by the Big N auditors in their comment letters. See Section 3 for details. *Tenure FASB* is an ED-level measure of the average tenure in years of all extant FASB members. *% Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. *% Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/ investment management. *%Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. *% Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners. *% Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services. *% Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners. The market variables are *VWRETD* and *sd_VWRETD*. *VWRETD* is the annual value-weighted market return (from CRSP) for the 12 months directly preceding the month in which a proposed SFAS was issued. *sd_VWRETD* is the standard deviation of daily *VWRETD* for the 12 months directly preceding the month in which a proposed SFAS was issued. Figures in italics and parentheses are standard errors.

	Professional characteristics			Political characteristics			All
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Tenure FASB</i>	0.0086 (0.0065)	0.0137 * (0.0077)	0.0140 * (0.0077)				0.0129 (0.0148)
<i>% Auditor FASB</i>	-0.1824 (0.2119)	-0.1597 (0.2099)	-0.1679 (0.2069)				-0.1943 (0.2142)
<i>% Financial FASB</i>	0.6668 *** (0.2047)	0.6672 *** (0.1994)	0.6438 *** (0.2024)				0.5506 ** (0.2211)
<i>Tenure SEC</i>	0.0196 * (0.0106)	0.0216 * (0.0110)	0.0220 ** (0.0110)				0.0202 (0.0128)
<i>% Financial SEC</i>	0.1804 (0.1108)	0.2101 * (0.1254)	0.2075 * (0.1258)				0.2393 * (0.1381)
<i>% Rep Donor FASB</i>				-0.0516 (0.1270)	-0.07579 (0.1144)	-0.0686 (0.1143)	0.0099 (0.1889)
<i>% Dem Donor FASB</i>				-0.2540 *** (0.0764)	-0.26618 *** (0.0809)	-0.2615 *** (0.0787)	-0.0102 (0.0664)
<i>% Democrat SEC</i>				0.0703 (0.0793)	0.080215 (0.0845)	0.0794 (0.0849)	0.0513 (0.0939)
Market Vars	No	Yes	Yes	No	Yes	Yes	Yes
Fixed Effects	No	No	Auditor	No	No	Auditor	Auditor
S.E. Cluster	SFAS	SFAS	SFAS	SFAS	SFAS	SFAS	SFAS
	Auditor	Auditor	Auditor	Auditor	Auditor	Auditor	Auditor
N Obs	908	908	908	908	908	908	908
R-Sq	0.1013	0.1067	0.1233	0.0383	0.0412	0.0616	0.1245

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level using a two-tailed t-test.

Table 5**OLS regression of *inc_relv* on the characteristics of FASB members and SEC commissioners**

Sample is 908 big auditor comment letters written on 149 exposure drafts that became 157 SFAS issued between 1973 and 2007. *inc_relv* is an assessment that a proposed SFAS will increase accounting “relevance” as expressed by the Big 8/6/5/4 auditors (hereafter “Big N auditors”) in their comment letters. See Section 3 for details. *Tenure FASB* is an ED-level measure of the average tenure in years of all extant FASB members. % *Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. % *Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/ investment management. % *Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. % *Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners. % *Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services. % *Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners. The market variables are *VWRETD* and *sd_VWRETD*. *VWRETD* is the annual value-weighted market return (from CRSP) for the 12 months directly preceding the month in which a proposed SFAS was issued. *sd_VWRETD* is the standard deviation of daily *VWRETD* for the 12 months directly preceding the month in which a proposed SFAS was issued. Figures in italics and parentheses are standard errors.

	Professional characteristics			Political characteristics			All
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Tenure FASB</i>	0.0015 (0.0031)	-0.0013 (0.0031)	-0.0014 (0.0031)				-0.0001 (0.0051)
% <i>Auditor FASB</i>	-0.1852 (0.1362)	-0.2096 (0.1410)	-0.2105 (0.1412)				-0.1150 (0.1042)
% <i>Financial FASB</i>	0.3388 * (0.1973)	0.3516 * (0.1935)	0.3634 * (0.1937)				0.5514 *** (0.1933)
<i>Tenure SEC</i>	0.0025 (0.0037)	0.0021 (0.0038)	0.0019 (0.0039)				0.0056 (0.0053)
% <i>Financial SEC</i>	0.0927 (0.0717)	0.0708 (0.0777)	0.0720 (0.0782)				-0.0052 (0.0676)
% <i>Rep Donor FASB</i>				-0.1722 * (0.1017)	-0.158942 * (0.0921)	-0.1624 * (0.0942)	-0.0441 (0.1275)
% <i>Dem Donor FASB</i>				-0.1608 *** (0.0609)	-0.1497 ** (0.0598)	-0.1520 ** (0.0611)	-0.0432 (0.0627)
% <i>Democrat SEC</i>				-0.0043 (0.0884)	-0.01291 (0.0874)	-0.0122 (0.0881)	-0.1090 (0.0963)
Market Vars	No	Yes	Yes	No	Yes	Yes	Yes
Fixed Effects	No	No	Auditor	No	No	Auditor	Auditor
S.E. Cluster	SFAS	SFAS	SFAS	SFAS	SFAS	SFAS	SFAS
	Auditor	Auditor	Auditor	Auditor	Auditor	Auditor	Auditor
N Obs	908	908	908	908	908	908	908
R-Sq	0.0594	0.0634	0.0681	0.03	0.032	0.0349	0.0775

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level using a two-tailed t-test.

Table 6A**Differences in means of explanatory variables across the comment-letter and manually assessed sub-samples**

Two-sample differences-in-means t-tests are performed on pairs of three distinct sub-samples. Sub-sample A is the 126 exposure drafts for which we have both manual assessments and auditor comment letters. Sub-sample B is the 19 exposure drafts for which we have manual assessments but no auditor comment letters. Sub-sample C is the 23 exposure drafts for which we have auditor comment letters but no manual assessments. *Tenure FASB* is an ED-level measure of the average tenure in years of all extant FASB members. *% Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. *% Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/investment management. *% Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. *% Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners. *% Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services. *% Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners.

	A A&B	B B&C	C C&A
<i>Tenure FASB</i>	4.335	4.277 ***	2.907 ***
<i>% Auditor FASB</i>	0.389	0.396	0.419 ***
<i>% Financial FASB</i>	0.064	0.038 *	0.000 ***
<i>Tenure SEC</i>	3.018	3.028	2.427 **
<i>% Financial SEC</i>	0.188	0.137	0.076
<i>% Rep Donor FASB</i>	0.191	0.173 **	0.087 ***
<i>% Dem Donor FASB</i>	0.126	0.140 ***	0.405 ***
<i>% Democrat SEC</i>	0.453	0.464	0.389 **
# of exposure drafts	126	19	23
Big N auditor comment letters available	Yes	No	Yes
Manual assessments available	Yes	Yes	No

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level using a two-tailed t-test.

Table 6B**OLS regression of *Manual_dec_relb* and *Manual_inc_relv* on the characteristics of FASB members and SEC commissioners**

Sample is the 126 exposure drafts for which we have both auditor comment letters and manual assessments (See Table 9A). *Manual_inc_relv* is an assessment that a proposed SFAS will increase “relevance” as determined by two independent reviewers. *Manual_dec_relb* is an assessment that a proposed SFAS will decrease “reliability” as determined by two independent reviewers. See Section 3 for details. *Tenure FASB* is an ED-level measure of the average tenure in years of all extant FASB members. *% Auditor FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in auditing. *% Financial FASB* is an ED-level measure of the proportion of extant FASB members with most recent former employ in investment banking/ investment management. *%Rep Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Republican Party or candidates. *% Dem Donor FASB* is an ED-level measure of the proportion of extant FASB members making campaign contributions to the Democratic Party or candidates. *Tenure SEC* is an ED-level measure of the average tenure in years of all extant SEC commissioners. *% Financial SEC* is an ED-level measure of the proportion of extant SEC commissioners with most recent former employ in financial services. *% Democrat SEC* is an ED-level measure of the proportion of extant Democratic SEC commissioners. The market variables are *VWRETD* and *sd_VWRETD*. *VWRETD* is the annual value-weighted market return (from CRSP) for the 12 months directly preceding the month in which a proposed SFAS was issued. *sd_VWRETD* is the standard deviation of daily *VWRETD* for the 12 months directly preceding the month in which a proposed SFAS was issued. Figures in italics and parentheses are standard errors.

	<i>Manual_dec_relb</i>			<i>Manual_inc_relv</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Tenure FASB</i>	0.0313 (0.0352)		0.0551 (0.0448)	0.0015 (0.0943)		0.0302 (0.1241)
<i>% Auditor FASB</i>	-0.8485 (0.5551)		-0.2959 (0.7059)	-2.1387 (1.4911)		-1.6739 (1.8935)
<i>% Financial FASB</i>	1.3714 ** (0.5541)		1.9236 *** (0.6928)	5.8551 *** (1.6954)		8.7955 *** (1.9482)
<i>Tenure SEC</i>	0.0250 (0.0419)		0.0588 (0.0495)	0.0467 (0.1008)		0.1058 (0.1292)
<i>% Financial SEC</i>	0.2801 (0.3030)		0.0261 (0.3493)	0.8158 (0.8384)		-0.3722 (0.9230)
<i>% Rep Donor FASB</i>		-0.7617 * (0.4181)	-0.7157 (0.5874)		-2.3263 *** (0.8732)	-0.2012 (1.3590)
<i>% Dem Donor FASB</i>		-0.6918 ** (0.3165)	-0.1197 (0.3951)		-1.2018 (1.0331)	0.8250 (1.3185)
<i>% Democrat SEC</i>		0.0833 (0.2231)	-0.2491 (0.2971)		-0.0319 (0.5728)	-1.8942 *** (0.6855)
Market Vars	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effects	No	No	No	No	No	No
S.E.	Robust	Robust	Robust	Robust	Robust	Robust
N Obs	126	126	126	126	126	126
R-Sq	0.1253	0.0717	0.1482	0.2771	0.0696	0.3294

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level using a two-tailed t-test.